

TABLE of CONTENTS

I. Management Discussion and Analysis (Unaudited)	3
Mission	4
Basis of Financial Reporting	4
Programs and Operations	5
Funding	5
Programs and Operations Overview	6
Management Initiatives to Improve GPO Operations.....	8
Financial Position and Results for Fiscal Year 2012	13
Consolidated Balance Sheets	13
Consolidated Statements of Revenues, Expenses, and Changes in Retained Earnings ...	14
Consolidated Revenues	14
Consolidated Expenses	16
Changes in Retained Earnings	18
Consolidated Statements of Cash Flows	18
Performance Measures	19
Operating Performance Measures	19
Financial Performance Measures	19
Possible Future Effects of Existing Events and Conditions	21
Fiscal Year 2013 Financial Projections	23
II. Inspector General’s Report	24
III. Independent Auditors’ Report	29
IV. Financial Statements	43
Consolidated Balance Sheets	44
Consolidated Statements of Revenues, Expenses, and Changes in Retained Earnings.	45
Consolidated Statements of Cash Flows	46
Notes to the Financial Statements	47
1. Summary of Significant Accounting Policies	48
2. Fund Balance with Treasury	56
3. Accounts Receivable, Net	57
4. Inventory, Net	57
5. Prepaid Expenses	58
6. General Property, Plant and Equipment, Net	58
7. Accounts Payable and Accrued Expenses.....	59
8. Deferred Revenues	60
9. Workers’ Compensation Liability	60
10. Commitments	60
11. Contingencies	61
12. Net Position	62
13. Appropriated Funds.....	64
14. Employee Benefit Plans	65
15. Major Customers	67
16. Voluntary Separation Incentive Program	67
17. Subsequent Events	68
Acronym List	69



SECTION I

MANAGEMENT

DISCUSSION

AND

ANALYSIS

(UNAUDITED)

U.S. Government Printing Office
Management Discussion and Analysis
As of September 30, 2012

Mission

The mission of the U.S. Government Printing Office (GPO or Agency) is *Keeping America Informed*, by producing, protecting, preserving, and distributing the official publications and information products of the Federal Government. To ensure Federal information is readily available to citizens, GPO makes information accessible in an array of communication mediums from traditional printed products to digital documents and databases that are accessible through the Internet. Newly developed mobile web applications are now available to readily access this information. GPO was created on June 23, 1860, when President James Buchanan signed Congressional Joint Resolution 25. GPO's first day of operations was March 4, 1861.

Basis of Financial Reporting

GPO's consolidated financial statements are prepared pursuant to the requirements of Title 31 *United States Code* (U.S.C.), *Money and Finance*, § 3515, Financial Statements of Agencies. The consolidated financial statements have been audited by an independent external auditor in accordance with Title 44 U.S.C., *Public Printing and Documents*, § 309, Revolving Fund for Operation and Maintenance of Government Printing Office.

The consolidated financial statements are prepared from GPO's financial system on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles (GAAP). Under the accrual basis, revenues are recognized (recorded) when earned, and expenses are recognized when incurred, without regard to the receipt or the payment of cash.

GPO's consolidated financial statements and accompanying notes provide information on the Agency's financial position, results of operations, changes in net position, and cash flows, and disclose significant financial events and economic affairs controlled by GPO, in conformity with applicable laws, regulations, standards, and policies relevant to financial reporting. GPO is committed to maintaining strong financial systems and internal controls to ensure accountability, integrity, and reliability. GPO's internal controls are designed to provide reasonable assurance that obligations and costs comply with applicable laws and regulations and are within budgetary limits; that funds, property, and other assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and that transactions are properly recorded.

GPO Instruction 825.18A, *Internal Control Program*, establishes the internal control standards and assessment methodology employed by GPO to ensure adequate and effective systems of management control and compliance with applicable laws and regulations. Management monitors the internal control systems and regularly conducts vulnerability assessments and internal control reviews of GPO's programs, operations, and other activities.

GPO's Office of the Inspector General (OIG) monitors the Internal Control Program at GPO and keeps the Public Printer informed of management's progress in addressing internal control

Section I: Management Discussion and Analysis

deficiencies identified in audits, reviews, and investigations. The OIG and occasionally the Government Accountability Office (GAO) conduct audits of GPO's programs and operations, and as such, evaluate management controls. GPO's Internal Control Program, along with recommendations from audits, reviews, and investigations, has strengthened management controls and improved the economy, efficiency, and effectiveness of GPO's programs, operations, and other activities.

Programs and Operations

The programs and operations managed by GPO are based on various public laws codified in Title 44 U.S.C. GPO's statutory responsibilities include fulfilling the printing and information product needs of the Federal Government and distributing official Federal publications to the public.

Funding

GPO's programs and operations are funded through a business-type Revolving Fund, authorized by Title 44 U.S.C. and by annual and certain no-year and multi-year appropriations provided by the U.S. Congress (Congress). GPO's Revolving Fund is authorized to be self-sustaining, without fiscal year limitations applicable to most annual appropriations. The Revolving Fund pays for the cost of the Agency's programs and operations and is reimbursed at rates and prices that are intended to recover the full cost of goods and services delivered to customers. GPO's rates and prices for products and services are developed using estimates of direct labor and direct material expenses, overhead expenses, and anticipated volumes.

The major sources of reimbursement to GPO's Revolving Fund are:

- Payments from Federal customers for printing and binding, blank paper and paper products, and information products and design services;
- Sales of Government publications and information products to the general public, bookstores, bookdealers, and businesses;
- Sales of U.S. passports and other secure credential documents and cards.
- Fund transfers from the Congressional Printing and Binding (CP&B) Appropriation and the Salaries and Expenses (S&E) Appropriation of the Superintendent of Documents.

The CP&B and S&E appropriations reimburse GPO's Revolving Fund for costs incurred to produce congressional work and fulfill statutory requirements to disseminate Federal Government information to the public. Reimbursements to the Revolving Fund from the CP&B and S&E appropriations are recorded as revenue when related liabilities are incurred. Unexpended CP&B and S&E appropriation balances may be authorized to be transferred to the Revolving Fund for these purposes with the approval of the House and Senate Appropriations Committees. Otherwise, unexpended annual appropriations are returned to the U.S. Department of the Treasury after five years.

Section I: Management Discussion and Analysis

Congress has also made no-year and multi-year appropriations available to GPO's Revolving Fund for specific purposes. For example, appropriations have been made for building improvements, security enhancements, information systems, and workforce retraining.

Programs and Operations Overview

GPO is organized into separate business units or segments, as described below, to carry out the various programs and operations of the Agency.

Official Journals of Government – The Official Journals of Government business unit provides support services to Members and officials of Congress, its committees and staffs, regarding the printing, binding, and electronic provision of information products required to carry out the legislative schedule and daily operations. This support includes indexing congressional proceedings, bills and resolutions, floor statements, and submitted documents that appear in the *Congressional Record*.

This business unit also works in close partnership with the Office of the Federal Register (OFR) to support timely production of the official documents of the OFR including the daily *Federal Register*, *Code of Federal Regulations*, *List of CFR Sections Affected*, *Public Papers of the Presidents of the United States*, and the *U.S. Government Manual*.

Plant Operations – The Plant Operations business unit publishes, conventionally and digitally, the important official journals of the Federal Government, along with many other Federal Government documents that are available to the public. This business unit provides Congress with all legislative printing and binding services, including overnight production of the *Congressional Record*, and congressional bills, reports, and hearings. GPO also produces the daily *Federal Register* and the *Code of Federal Regulations* for the Executive Branch. Congressional and *Federal Register* documents created in digital formats are posted on GPO's Federal Digital System (FDsys).

Security and Intelligent Documents – This business unit prints, manufactures, and distributes secure credentials, documents, forms, tickets, and smartcards for other Federal agency customers. These security products and services incorporate advanced electronic technologies and integrated security features to prevent fraud and counterfeit activities. Security and Intelligent Documents (SID) products and services include the production of all passports, secure diplomatic drivers licenses, and protocol cards for the U.S. Department of State. Additionally, SID supports the U.S. Department of Homeland Security's Trusted Traveler border crossing smartcard program as well as the HSPD-12 PIV card program used for access to Federal facilities and systems. SID also provides secure products and services for the U.S. Department of Health and Human Services, the U.S. Department of Defense, and the District of Columbia (DC) government.

SID operates within a certified International Organization for Standardization (ISO) 9001 production and quality control environment. SID protects the Personally Identifiable Information (PII) data of customers used in the personalization of credentials, and is certified by the U.S. General Services Administration (GSA) as the only Government entity capable of graphically personalizing the Nation's HSPD-12 PIV smart cards now used in all agencies for

Section I: Management Discussion and Analysis

physical access to Federal Government facilities and logical access to Federal Government computer systems. SID accomplishes all this by leveraging GPO's long and successful security printing tradition with expertise in biometrics, advanced chip and antenna technologies, and state-of-the-art security features found in inks, threads, holograms, paper, and plastic substrates.

Customer Services – The vast majority of the Federal Government's printing needs requisitioned through GPO are out-sourced using Customer Service's partnerships with thousands of companies in the commercial printing and information product industry. This arrangement enables GPO to take advantage of the vast resources, expertise, and specialization within the private sector and ensures open market competition for Federal printing contracts among thousands of businesses, large and small.

The Customer Services business unit provides pre-procurement consulting, print procurement (including specification writing, bid and solicitation management, and contract awarding), as well as full life-cycle contract administration to Federal customers. Customer service teams are assigned to service specific customer agencies. They are in continuous contact with Customer Agency Printing Officers and Program Managers to maintain high levels of satisfaction and to expand their expertise on each agency's specific mission, needs, and challenges. Customer Service's performance measures for on-time delivery and quality acceptance (see Performance Measures section) underscore the effectiveness of this partnership between industry and Government.

Creative and Digital Media Services – GPO's Creative and Digital Media Services provides graphic multimedia and Web services to Federal customers. They assist customer agencies by guiding them to the optimal solution for their projects using the latest technology. The staff comprises developers, information specialists, and professional designers that specialize in art, graphic design, photography, illustration, and multi-media. This business unit's work includes designs of Presidential Inauguration materials and passport and other security designs. Other examples of recent Web design and development projects for agency clients include the National Interagency Fire Center, U.S. General Services Administration, D.C. Department of Consumer Regulatory Affairs, and U.S. Capitol Visitor Center.

Publication and Information Sales Program – GPO's Publication and Information Sales business unit increases public access to U.S. Government information through sales of Government information products. The public may purchase paper and e-book copies of Federal Government publications and subscriptions via GPO's Online Bookstore by e-mail, phone, fax, and mail. This business unit also works with commercial sales channels, including book distributors nationwide, to enhance Government information distribution. Publication and Information Sales also provides customer agencies with expert advice on how to make their publications more user-friendly and commercially viable.

Reimbursable Services Program – This business unit provides a variety of global order fulfillment, inventory, and list management services to Federal agencies through distribution centers in Pueblo, CO, and Laurel, MD. This business unit also supports the General Services Administration's popular Federal Citizen Information Center in Pueblo.

Section I: Management Discussion and Analysis

Library Services and Content Management – This business unit supports and manages the Federal Depository Library Program (FDLP), the Cataloging and Indexing Program, the By-Law Program, and the distribution component of the International Exchange Service of the Library of Congress (LOC). The FDLP ensures equitable, secure, convenient, and permanent no-fee access to published U.S. Government information.

The FDLP includes 1,197 designated Federal depository libraries throughout the United States and its territories that provide the American public free access to U.S. Government publications in tangible and electronic collections. Library Services and Content Management's (LSCM) major operational functions include cataloging, acquiring new tangible and electronic publications for the FDLP, program planning, distributing publications to libraries, education and outreach, library technical services, and archival management. Working with other GPO units, LSCM also supports the development of, promotion of, and education about GPO's FDsys (www.fdsys.gov), which provides direct online access to Federal Government publications. Other online services managed by this business unit include the *Catalog of U.S. Government Publications* (<http://catalog.gpo.gov>), the FDLP Desktop (www.fdlp.gov), the FDLP Community Site (<http://community.fdlp.gov>), and Ben's Guide to the U.S. Government (<http://bensguide.gpo.gov>).

Management Initiatives to Improve GPO Operations

Forward Looking Strategy and Plan 2013-2017

Management initiatives to improve operations are contained in GPO's Strategic Plan for Fiscal Years 2013 through 2017, "Customer Centric and Employee Driven." The plan places emphasis on the effective and efficient accomplishment of the Agency's mission of *Keeping America Informed*, while serving as the *Official, Digital, and Secure* information link between the Federal Government and the American public. The GPO Strategic Plan also maintains and promotes the Agency's core values of commitment, customer service, dependability, diversity, integrity, and teamwork. This document guides the Agency in satisfying stakeholders, strengthening GPO's organizational foundation, and offering best-in-class value and service to its customers. All Agency policy decisions, budgeting and capital investment decisions, workforce development, industry partnerships, customer relations, and operational decision-making, are based on the strategic plan. The complete version of GPO's Fiscal Year 2013 through 2017 Strategic Plan is available online at http://www.gpo.gov/pdfs/about/2013-2017_StrategicPlan.pdf.

Agency Achievements 2012

The following are some of the strategic accomplishments GPO achieved in fiscal 2012 as the *Official, Digital Information Platform for the Federal Government and Provider of Secure Credentials*.

Official

GPO is the official publisher for the Federal government. In support of GPO's customer base, which includes all three branches of the Federal government, and Federal information consumers, i.e., the citizens of the United States, GPO publishes the official journals of government in paper, digital, and Web application (apps) versions. The Agency continues to produce paper copies at the request of Federal customers for working copies; however, the digital versions and Web applications have been and are being developed to be the information delivery mechanisms and repositories of the future.

GPO's FDsys is the content management, preservation repository, and advanced search engine that allows users to search, browse, access, and download Federal information. Titles include the official versions of the: *Congressional Record*, *Federal Register*, *Budget of the U.S. Government*, *Compilation of Presidential Documents*, *U.S. Code*, *Code of Federal Regulations*, and many others. In fiscal 2012, GPO implemented the following improvements for FDsys users:

Simplified the information loading/inputting process. Content can now be loaded without the need for development resources. This streamlined the process for including new content and metadata, allowing information to be made available quicker and easier through FDsys. The U.S. Department of the Treasury was the first information provider to use this new standard submission feature.

Enabled Extensive Markup Language (XML) formats for Congressional reports. The capability to accept and display XML formats for the Congressional Reports collection allows users to readily repurpose the downloaded data on a variety of platforms.

Enabled Application Programming Interface (API) content access. An FDsys API was developed that provides services for developers and webmasters to programmatically access content and metadata on FDsys in a predictable way. This allowed a Link Service enhancement, enabling embedded links to be created to content and metadata from many FDsys collections.

Implemented a new browse feature. Enabled a new browser by "content by Government author," which provided the user with the ability to browse by author as well as collection, date or congressional committee.

Redesigned Web sites. GPO continued the redesign of two prominent web sites, the *Federal Depository Library Program Desktop* and *Ben's Guide to U.S. Government*, to provide a more integrated, streamlined, and user-centric tool. Also, at the request of the Library community, several FDsys system changes were made, including the ability to search through a pre-defined search set entitled "GPO Resources." Notable new components of the expanded database were:

- LOC Catalog
- Archival Research Catalog of the National Archives
- Data.gov and geodata.gov data sets
- Air University Index to Military Periodicals
- Environmental Health Perspectives

Section I: Management Discussion and Analysis

- Northern Prairie Wildlife Research Center Publications
- Agricola Articles from the National Agriculture Library
- GAO Reports and Testimony
- National Aeronautics and Space Administration (NASA) Technical Reports
- PubMed from the National Institutes of Health

Digital

Approximately 97 percent of Federal information is born digital. This makes GPO's role as the official, permanent repository of Federal information, via FDSys, even more critical. In addition to publishing the daily digital versions of the *Congressional Record*, *Federal Register*, and other previously mentioned titles, GPO continued to convert important paper-based Federal information products to digital format through FDSys. GPO accomplished the following initiatives in fiscal 2012 that advanced the Agency's digital role:

Digitized *United States Statutes at Large*. The development work was completed to allow FDSys users to access the digital United States Statutes at Large (1951-2002) at a greater level of granularity. This additional level of detail allows for enhanced search and access to the collection. The Statutes at Large was digitized by the LOC and incorporated into FDSys in 2011. This effort is part of an ongoing partnership with LOC to provide access through FDSys to digitized historical content. This enhancement will be made publicly available in the first quarter of fiscal 2013.

Improved access to the United States Courts Opinions collection. Through the Administrative Office of the U.S. Courts, a pilot project was launched to increase public access to Federal Court opinions. The United States Courts Opinions Collection in FDSys contains opinions from the Federal appellate, district, and bankruptcy courts dating to April 2004. The pilot began with 3 courts and has since increased to 29 courts. The collection contains nearly 600,000 opinions and had more than 40 million downloads in fiscal 2012, making it the fourth-most popular collection on FDSys.

Progress toward a comprehensive National Bibliographic Inventory. Progress continued toward a comprehensive National Bibliographic Inventory to provide electronic cataloging information for U.S. Government publications (both current and historical). Important accomplishments included:

- Archiving record transcription, including maps, monographs and serials bibliographic records.
- Archiving record digitization.
- Transcribing historic Depository Items.
- Cataloging cooperative projects with depository libraries to obtain bibliographic information for program-eligible materials not distributed through FDLDP.
- Identifying bibliographic information for known sets of missing fugitive publications, including the *U.S. Congressional Serial Set Catalog*.

Enhanced searchability of the electronic Federal Register. On behalf of the Office of the Federal Register, a Document Classification Number was added to *Federal Register* documents

Section I: Management Discussion and Analysis

that categorizes each document by classification, subtype, docket type, and rulemaking stage. This enhancement allows for more precise searching of the *Federal Register*.

Released Mobile Applications (Apps). GPO's first mobile application, the Mobile Member Guide, was released in November 2011 and enables users to view information about the 112th Congress on their mobile devices. This app, which is based on the *Guide to the House and Senate Members* and information in the *Congressional Pictorial Directory*, allows users to browse for Members of Congress by first and last name, last name, state, chamber, and party. In fiscal 2012, new features were added including official, biographical and contact information, counties and zip codes, and links to the House Members and Senators' Web sites. The Mobile Member Guide is available at <http://m.gpo.gov/memberguide>.

In February 2012, the 2013 U.S. Government Budget app was released and had 53,000 visits in the first 24 hours and 100,000 visits in the first month. This app provides mobile users with access to the text and images of the main 2013 Budget Book, including the Budget Message of the President, information on the President's priorities, and budget overviews organized by agency. The U.S. Government Budget app is available at <http://m.gpo.gov/budget>.

GPO also created a new Apple iPad[®] application for the LOC that enables users with mobile devices to access the daily *Congressional Record*.

Secure

The Nation's security program is supported by GPO's role in producing secure credentials for Federal agencies. In addition to producing approximately 10 million electronic U.S. passports for the U.S. Department of State in fiscal 2012, GPO began production of several new or updated security credentials, including:

Global Entry Cards – These cards were produced for the U.S. Department of Homeland Security for the Trusted Traveler program to expedite customs processing for Americans returning from foreign air travel.

Special Events Credentials – These cards were produced for the Federal Bureau of Investigation for issuance to public safety workers at the 2012 NFL Super Bowl.

DC One Cards - These cards were produced for the DC Government. With this card, adults and children can utilize multiple DC government programs and facilities, including public and charter schools, recreation centers, libraries, and the metropolitan area transportation system.

United Nations Diplomatic Identification Cards – These cards were produced by GPO for the U.S. Department of State for issuance to foreign United Nations Diplomats and their staff while in the United States.

In addition, the Security and Intelligent Documents business unit earned a favorable rating from 96% of the customer respondents to an on-line survey. They were “extremely likely” or “very likely” in recommending GPO-manufactured secure Federal credentials to others.

Section I: Management Discussion and Analysis

Also, GPO obtained approval to establish a Secure Credential Center at the Stennis Secure Production Facility to serve as the continuity of operations program (COOP) site for the production of the Trusted Traveler Card and other secure credentials.

Other Notable Achievements

The Agency measures its production performance against commercial industry benchmarks and standards. In fiscal 2012, GPO received certifications and awards including:

- GPO successfully renewed its International Organization for Standardization (ISO) 9001 certification for secure credential manufacturing. ISO 9001 is a globally recognized standard for quality management in production and process controls designed to achieve customer satisfaction through the delivery of products and services free of defects.
- The 2013 United States Government Budget app developed by GPO received a 2012 Digital Government Achievement Award from the Center for Digital Government and Digital Communities Program.
- GPO's Plant Operations achieved IDEAlliance High Quality Government Printer designation by securing G7 Master Printer certification for GRACoL® Proof and Sheet-fed Offset Printing.
- GPO's Plant Operations completed all auditing requirements and achieved Sustainable Green Printing Partnership certification for printing operations.

Financial Position and Results for Fiscal Year 2012

The following is an overview of the financial position and operating results reflected in GPO's basic financial statements as of and for the fiscal year ended September 30, 2012.

Consolidated Balance Sheets

The consolidated balance sheets present the combined amounts that GPO had available to use (assets) versus the amounts the Agency owed (liabilities), and the residual amounts (net position) after liabilities were subtracted from assets.

GPO's total assets increased to \$755.3 million as of September 30, 2012, from \$694.4 million as of September 30, 2011. The increase of \$60.9 million (8.8 percent) in total assets was attributable to \$93.8 million increase in fund balance with Treasury, partially offset by a \$31.1 million decrease in accounts receivable. The increase in fund balance with Treasury was due to faster collections and issue resolutions through the billing system and an increase in customer agency deposit accounts.

Net value of general property, plant and equipment decreased to \$100.5 million as of September 30, 2012 from \$103.3 million as of September 30, 2011. The decrease of \$2.8 million (2.7 percent) during fiscal 2012 occurred primarily from the net effect of \$18.7 million in capital acquisitions (which increased the net value), offset by \$21.5 million in depreciation expense recorded in fiscal 2012 (which reduced net value).

GPO's liabilities increased to \$389.6 million as of September 30, 2012, from \$343.1 million as of September 30, 2011. The increase of \$46.5 million (13.6 percent) in total liabilities was primarily due to an increase in deferred revenues of approximately \$57.3 million (40 percent) and workers' compensation liability of \$2.4 million (3.5 percent), offset by decreases in accounts payable and accrued expenses of \$11.8 million (9.8 percent).

The increase in deferred revenues was primarily due to a \$62.9 million increase in customer deposit accounts for printing and binding, offset by a \$5.2 million decrease in advanced billings. These are voluntary customer deposits to cover future work. The decrease in accounts payable and accrued expenses of \$11.8 million was primarily driven by the reduction in workforce in 2011 through the Voluntary Separation Incentive Program which included a \$7.2 million accrual for fiscal 2011.

GPO's net position increased to \$365.7 million as of September 30, 2012 from \$351.3 million as of September 30, 2011. The increase of \$14.4 million (4.1 percent) in GPO's net position was primarily the result of an increase in unexpended appropriations of \$11.6 million and an increase in retained earnings of \$2.9 million. Agency unexpended appropriations increased due to increases in unliquidated obligations in unexpended Revolving Fund appropriations of \$12.6 million (\$19.9 million at year-end 2012 from \$7.3 million at year-end 2011), and in the CP&B appropriations of \$565,000 (\$57.8 million at year-end 2012 from \$57.3 million at year-end 2011), offset by decreases in unliquidated obligations in the Salaries and Expenses Appropriations of \$1.6 million (approximately \$27 million at year-end 2012 from \$28.6 million at year-end 2011).

Consolidated Statements of Revenues, Expenses, and Changes in Retained Earnings

The consolidated statements of revenues, expenses, and changes in retained earnings present the accrued reimbursements for goods sold and services provided (revenues), the accrued cost of assets and services used (expenses) in the creation of revenues, and the change, within the period presented, of the accumulated net income of the Agency (changes in retained earnings).

Consolidated Revenues

GPO's consolidated revenues (net of eliminations) are derived from four major sources: Printing & Binding; Appropriations; Sales of Publications; and Agency Distributions. Consolidated revenues were \$713.8 million in fiscal 2012 and \$821.1 million in fiscal 2011. This decrease of \$107.3 million (13.1 percent) was mainly attributable to the Printing & Binding and Appropriation revenue sources. Printing & Binding revenues decreased to \$584.3 million in fiscal 2012 from \$681.5 million in fiscal 2011, a decrease of \$97.2 million (14.3 percent). Appropriation revenues decreased from \$122.1 million in fiscal 2011 to \$114.5 million in fiscal 2012. This is a \$7.6 million (6.2 percent) decrease. Sales of Publications revenue decreased by \$1.8 million, from \$11.4 million in fiscal 2011 to \$9.6 million in fiscal 2012. Agency Distributions revenues decreased to \$5.4 million in fiscal 2012, down from \$6.1 million in fiscal 2011, an approximately \$717,000 decrease.

Printing and Binding Revenues

GPO earns revenues from Federal Government customers for printing, binding, and related services performed by GPO business units and from work performed by commercial contractors. Printing and binding revenues were based on a system of rates, prices, and surcharges designed to recover costs. The revenues for printing and binding originate from the programs and operations of five business units at GPO: Plant Operations, Official Journals of Government, Security and Intelligent Documents, Customer Services, and Creative and Digital Media Services. The revenues earned from jobs produced by GPO employees are generally recognized on a value-added basis, as work is performed. Revenues from contracted jobs are generally recognized on the date that contract requirements are fulfilled, i.e., the date finished products are shipped by the contractor to the customer agency. Revenues from the production of passports for the U.S. Department of State are recognized at negotiated rates per passport at the time that the manufacturing process is completed.

Plant Operations generated revenues of \$128.9 million in fiscal 2012 compared with revenues of \$140.4 million in fiscal 2011. This represents a decrease in orders of \$11.5 million (8.2 percent). Revenues were generated from the production of paper and digital versions of the *Congressional Record* and all other legislative materials, as well as other documents including the *Federal Register* and the *Code of Federal Regulations*. Plant Operations revenues in fiscal 2012 include approximately \$80.2 million from the CP&B Appropriations, compared to \$79.2 million in fiscal 2011.

Official Journals of Government generated revenues of \$11.3 million in fiscal 2012 compared with revenues of \$11.5 million in fiscal 2011. Revenues generated by providing administrative services to the U.S. Congress were \$4.8 million in fiscal 2012 compared to \$4.5 million in fiscal 2011. Revenue from employees (printing specialists) detailed to House and Senate Committees increased by about \$267,000 from \$4.3 million in fiscal 2011 to \$4.5 million in fiscal 2012.

Section I: Management Discussion and Analysis

Overall revenues for the Security and Intelligent Documents (SID) business unit decreased to \$179.3 million in fiscal 2012 from \$209.4 million in fiscal 2011, or \$30.1 million (14.4 percent). SID's major product is the U.S. passport. GPO produced about 10 million passports in fiscal 2012 compared to 13.2 million in fiscal 2011. As a result, passport revenues decreased from \$202.1 million in fiscal 2011 to \$168.8 million in fiscal 2012, a decrease of \$33.3 million (16.5 percent). SID revenues in fiscal 2012 for the Trusted Traveler and other secure credentials for the U.S. Department of Homeland Security increased from \$7.3 million in 2011 to \$10.5 million in 2012, an increase of \$3.2 million. A passport rate increase from fiscal 2011 to fiscal 2012 was fully offset by the decline in passport production volumes.

Customer Services revenues decreased \$53.1 million (13.5 percent) from \$392.8 million in fiscal 2011 to \$339.7 million in fiscal 2012. Fiscal 2012 revenue decreased due to fewer customer orders from Defense Logistics Agency, U.S. Department of Health and Human Services, U.S. Department of State, the U.S. Department of the Treasury and the U.S. Social Security Administration. Revenues from the GPO*Express*SM program decreased \$2.1 million, from \$9.3 million in fiscal 2011 to \$7.1 million in fiscal 2012.

Creative and Digital Media Services revenues were \$2.6 million in fiscal 2012 compared with \$3.6 million in fiscal 2011, a decrease of \$1.0 million (27.8 percent). The decrease results from fewer requests from customer agencies for these services.

Appropriation Revenues

GPO receives annual, no-year, and multi-year appropriations from Congress to finance certain costs in accordance with the underlying appropriation act and enabling legislation. The Legislative Branch Appropriations Act for 2012 (Public Law 112-10, April 15, 2012) made a total of \$126.2 million in annual appropriations available to the Agency for fiscal 2012.

Revenues earned from appropriations provided to GPO totaled \$114.5 million for fiscal 2012 and \$122.1 million for fiscal 2011. The decrease in appropriation revenue of \$7.6 million (6.2 percent) was primarily due to decreases in appropriation revenues from the Revolving Fund and S&E. Revenue from appropriations to the Revolving Fund was \$1.5 million in fiscal 2012, which included \$500,000 from fiscal 2012 appropriations. In comparison, the Revolving Fund appropriation revenue was \$5.2 million in fiscal 2011, a decrease of \$3.7 million (71.2 percent). Revolving Fund appropriation revenue is a reimbursement of qualifying expenses and is recognized when the appropriated funds are made available and the qualifying expenses are incurred. The \$1.5 million recognized as revenues in fiscal 2012 were related to qualifying expenses of \$500,000 for FDsys development and \$1.0 million for roof and elevator repairs and infrastructure improvements. In fiscal 2011, the \$5.2 million recognized as revenues related to qualifying expenses of \$3.3 million for FDsys development and \$1.9 million for roof and elevator repairs, and infrastructure improvements.

Revenues from the CP&B Appropriation were \$80.2 million in fiscal 2012 compared to \$79.2 million in fiscal 2011, an increase of approximately \$1 million (1.3 percent). The annual CP&B Appropriation is used to fund printing and binding and related information product services provided to Congress by the Plant Operations business unit and services provided by the Official

Section I: Management Discussion and Analysis

Journals of Government business unit. This revenue is also reported in Plant Operations as congressional work is performed. Therefore appropriations revenue is eliminated on the consolidated financial statements.

The S&E Appropriation provided revenues of \$32.9 million in fiscal 2012 and \$37.6 million in fiscal 2011, a decrease of \$4.7 million (12.5 percent). The S&E Appropriation is provided annually by Congress to fund the dissemination of Federal Government information to the public by GPO's Library Services and Content Management business unit.

Sales of Publications Revenues

GPO earns revenues from the sales of publications in print and digital formats to the public and others. The Publication and Information Sales Program sells publications, subscriptions, and other Federal Government information products at prices designed to recover costs. Revenue from the sales of publications totaled \$9.6 million for fiscal 2012 and \$11.4 million for fiscal 2011, a decrease of \$1.8 million (15.8 percent). The number of publications sold decreased from 240,000 in fiscal year 2011 to 171,000 (28.8 percent decline) in fiscal 2012. Publication and subscription revenue has been declining as agencies put more information in digital format.

Agency Distribution Revenues

GPO earns revenues from Federal agencies for the storage, packaging, and distribution of Federal Government publications to the public and others. Agency Distributions provides these services on a cost reimbursement basis, at rates and prices designed to recover costs. Revenues from Agency Distributions totaled \$5.4 million for fiscal 2012 and \$6.1 million for fiscal 2011. This represents a decrease of \$700,000 (11.5 percent). The number of reimbursable items processed decreased from 38.1 million units in fiscal 2011 to 27.5 million units in fiscal 2012. This revenue is highly dependent on agencies choosing to distribute tangible items such as books, pamphlets, posters, and leaflets to the public. This type of work has been declining as agencies put more information in digital format.

There are additional revenues for space leases and minor operations of \$2.7 million for fiscal 2012 and approximately \$3 million for fiscal 2011.

Consolidated Expenses

GPO incurred total consolidated operating expenses, before other operating expenses, of \$708.6 million for fiscal 2012 and \$818.2 million for fiscal 2011, a decrease of \$109.6 million (13.4 percent). The decrease in operating expenses was due primarily to a decrease in printing and reproduction expenses, and decreases in personnel compensation expenses. A brief description of the major expense categories for the Agency follows.

Printing and Reproduction Expenses

GPO incurred expenses for printing and reproduction of \$314.2 million for fiscal 2012 and \$362.1 million for fiscal 2011. This represents a decrease in printing and reproduction expenses of \$47.9 million (13.2 percent), which was attributable to decreased purchases of printing from private sector contractors by the Customer Services business unit.

Section I: Management Discussion and Analysis

Personnel Compensation and Benefits Expenses

GPO incurred expenses for personnel compensation and benefits of \$207.0 million during fiscal 2012 and \$237.0 million during fiscal 2011. This represents a decrease in personnel compensation and benefit expenses of \$30.0 million (12.7 percent). The decrease was attributable to reduced headcount. GPO had 1,879 employees at September 30, 2012, compared to 2,197 employees at September 30, 2011.

Supplies and Materials Expenses

The supplies and materials expense category includes production-related paper and materials, general office supplies, and equipment, furniture, and vehicle purchases that were expensed because they did not meet GPO's capitalization threshold. The Security and Intelligent Documents and Plant Operations business units operate production facilities that incur significant costs for supplies, materials, and paper. GPO expenses for supplies and materials were \$103.6 million in fiscal 2012 and \$126.9 million in fiscal 2011. This represents a decrease of \$23.3 million (18.4 percent). The decrease was primarily attributable to a decrease in electronic passport production.

Other Services Expenses

This expense category includes the cost of professional services provided by contractors for consulting, system development, maintenance of equipment, audits, investigations, and employee training. These expenses are recognized when services ordered have been performed. GPO incurred expenses for these services of \$33.4 million for fiscal 2012 and \$39.2 million for fiscal 2011. This represents a decrease of \$5.8 million (14.8 percent). The favorable variance was primarily due to decreases of \$3.9 million and \$2.0 million in bad debt expense and professional services, respectively.

Depreciation and Amortization Expenses

Total depreciation and amortization expenses for fiscal years 2012 and 2011 were \$21.5 million.

Rents, Communications, and Utilities Expenses

This expense group includes rents for building space outside of Washington, DC, leased equipment and vehicles, and utilities. GPO incurred expenses for rents, communications, and utilities of \$15.5 million for fiscal 2012 and \$16.3 million for fiscal 2011. This represents a decrease of \$800,000 (4.9 percent). The favorable variance was mainly due to decreases in electricity (\$900,000) and telecommunications (\$400,000) expenses, partially offset by an increase in steam expenses (\$600,000).

Travel, Transportation, and Postage Expenses

This expense category includes the cost of employee travel and relocation, commercial transportation and delivery services, postage (including postage reimbursable from customer agencies), and commercial mailing services. GPO incurred expense for travel, transportation, and postage of \$8.8 million for fiscal 2012 and \$10.1 million for fiscal 2011. This represents a decrease of \$1.3 million (12.9 percent). The decrease was primarily due to a decrease in postage and commercial mailing expense of \$704,000 and a decrease in reimbursable mailing expenses of about \$400,000.

Section I: Management Discussion and Analysis

Publications Sold Expenses

This expense is incurred when GPO's Publication and Information Sales business unit sells publications, subscriptions, and other Federal Government information products to customers. This expense totaled \$4.6 million in fiscal 2012 compared to \$5.1 million in fiscal 2011, a decrease of \$580,000 (11.4 percent). This year-on-year decrease in expenses correlates with the decline in the volume of publications and subscriptions sold.

Changes in Retained Earnings

GPO's retained earnings increased by \$2.9 million to \$168.1 million at the end of fiscal 2012, compared to \$165.3 million at the end of fiscal 2011. The increase resulted from GPO's net income for fiscal 2012.

Consolidated Statements of Cash Flows

The consolidated statements of cash flows present GPO's cash position at the beginning and end of the reporting period, and the sources and uses of cash for all operating, investing, and financing activities.

Fund Balance with Treasury (cash) increased by \$93.8 million during fiscal 2012 compared with an increase of \$46.7 million in fiscal 2011. The increase in cash during fiscal 2012 was primarily the result of the following.

- In fiscal 2012, GPO generated approximately \$101 million from operations. This cash inflow was mainly attributable to an increase in deferred revenue and a decrease in accounts receivable.
- Cash invested in capital assets was \$18.7 million in fiscal 2012. In fiscal 2012, investments were made primarily in new passport production equipment as well as FDsys and Oracle computing environment.
- In fiscal 2012, GPO's unexpended appropriations increased by \$11.6 million, due primarily to an increase in the unexpended year-end balance in the Revolving Fund appropriation of \$ 12.6 million. The increase was the result of a \$9.9 million and \$3.7 million in transfers from the CP&B and S&E appropriations to the Revolving Fund, respectively.

Performance Measures

GPO gauges its overall efficiency and effectiveness using certain performance measures. Generally, these performance measures are based on established standards, goals, or objectives that are compared against actual performance or results for each fiscal year. The following sections discuss the major operating performance measures and financial performance measures used by the Agency.

Operating Performance Measures

On-Time Delivery of Congressional Record

The *Congressional Record* is the official record of the proceedings and debates of the U.S. Congress. This important information product is published daily when Congress is in session. GPO uses a performance measure to evaluate the timeliness of the delivery of this core product to Congress. To measure GPO's success in delivering the *Congressional Record* to Congress on-time, GPO established a deadline of delivery to the House and Senate chambers before the start of the next day's session when 100 percent of copy is received by midnight. The on-time delivery rate was 89.2 percent for fiscal 2012 and 96.6 percent for fiscal 2011. The Agency's goal of 95 percent or better was not met for fiscal 2012. The goal will remain the same for fiscal 2013.

On-Time Delivery and Quality Acceptance of Procured Printing

Customer Services contracted with commercial businesses to produce and ship approximately 80,000 orders for GPO customers in fiscal 2012. For fiscal 2012, the goals were to have at least 95 percent of procured printing orders delivered on schedule and a quality acceptance rate of at least 99 percent. Customer Services met both of these goals for fiscal 2012, with 97.3 percent of procured printing orders delivered on time and a quality acceptance rate of 99.8 percent. In comparison, GPO contractors shipped approximately 84,000 orders in fiscal 2011, with 97.3 percent of the procured printing orders delivered on time and a quality acceptance rate of 99.9 percent. The two goals will remain the same for fiscal 2013.

Financial Performance Measures

Cash Management

Payment Discounts Earned - In fiscal 2012 GPO continued to save millions of dollars by taking favorable prompt payment discounts offered by contractors for the payment of invoices within the discount period. GPO earned prompt payment discounts of \$3.6 million on purchased printing expense of \$314.5 million. In comparison, GPO earned \$4.1 million in discounts on \$361.2 million in printing expenses last year. The average discount rate earned was 1.1 percent for both fiscal years 2012 and 2011. The average discount rate earned for fiscal 2012 was short of the goal of 1.2 percent due to fewer overall discounts being offered by printing contractors. The goal for fiscal 2013 will be 1.2 percent.

Lost prompt payment discounts increased to \$660,944 in fiscal 2012 from \$532,000 in fiscal

Section I: Management Discussion and Analysis

2011. As a result, the percentage of discounts lost to discounts offered was 15.4 percent, as compared to 12 percent in 2011. GPO will strive to improve the percentage of discounts lost to total printing expense in fiscal 2013.

Electronic Payments – Electronic Funds Transfer (EFT) is the most secure, efficient, and economical method of making payments to GPO contractors, employees, and other non-Federal entities. While it costs the U.S. Government \$1.03 to issue each check payment, the cost is only \$0.11 to issue an EFT payment¹. In fiscal 2012, 74.6 percent of all payments were made by EFT. In comparison, about 72.9 percent of all payments were made by EFT in fiscal 2011. While the Agency's EFT payments did not meet the goal of 90 percent for fiscal 2012, GPO will continue to work with vendors to increase EFT participation rates and strive to achieve that goal for fiscal 2013.

1. Source: U.S. Department of the Treasury, <http://www.fms.treas.gov/eft.index.html>

Possible Future Effects of Existing Events and Conditions

Several events and conditions may materially impact GPO's programs and operations in the future. A synopsis of each of these conditions follows.

Sequestration – Sequestration is scheduled to be ordered on March 1, 2013 based on the Budget Control Act of 2011, as amended by the American Taxpayer Relief Act of 2012. The President's report, pursuant to the Sequestration Transparency Act of 2012, estimated that sequestration would reduce fiscal 2013 appropriated funds made directly to GPO by about 8.2 percent or approximately \$10 million, based on a number of assumptions. The actual percentage is not available at this time.

The Office of Management and Budget (OMB) has indicated that certain administrative expenses of GPO's business-like Revolving Fund may be capped. Also, GPO customer agencies could face sequestration, which could have an adverse effect on GPO's Customer Service business unit.

Other Federal Appropriation Reductions – Printing and duplicating are considered a discretionary cost for Federal customers, generally. The potential for possible budget reductions and restrictions in the future may have an adverse effect on the availability of funds for Federal printing and duplicating provided by GPO.

Decline in Demand for Ink-on-Paper Products – GPO continues to manufacture and sell a sizable array of Federal information products. The upward trend in Government documents available on the Internet, and a downward trend in customer demand for printed documents, will continue to place downward pressure on in-plant printing revenues and publication sales.

GPO's customer base of Federal agencies will continue to need printed copies, albeit reduced quantities, to accomplish their respective missions. GPO is working with agencies to educate and assist them in effectively accomplishing the communications aspect of their missions. In fiscal 2012, nearly 300 customers attended general seminars on GPO's products and services, while about 150 customers attended tailored, customer agency specific presentations on GPO. GPO plans to continue these outreach programs for Federal agencies to adapt to the future of Federal Government communications.

Some Plant Operations core ink-on-paper products, such as the *Congressional Record* and *Federal Register*, have shorter production runs than in past years because these products are now available online. Production runs are expected to further decline as customers opt out of paper copies for digital access. To offset potential decreases in revenue from lessening demand for printed products, Plant Operations has committed to capitalizing on efficiencies in operations, implementing improved printing technologies, and utilizing digital print methods to satisfy requirements unique to Federal customers in order to provide best value.

The Publication and Information Sales Program business unit is still dependent on hard-copy sales for funding its operations. GPO has entered into several e-book sales partnerships, as more people turn toward electronic publications. This business unit will continue to identify market

Section I: Management Discussion and Analysis

segments for the program's offerings, employ focused advertising, and provide world-class customer service to a niche customer base. However, operational efficiencies will need to continue to improve in order to achieve positive operating margins.

Rapid Changes in Technology –GPO has successfully adapted to changes in printing and information technology over the course of its history. In the last few years, the rate of change in technology has increased dramatically. Faced with a forecast of decreasing revenues and limited funds to invest in infrastructure improvements in fiscal 2013 and possibly beyond, GPO established an internal committee with the responsibilities of identifying strategic capital investments and melding the opportunities into an overall short-term to long-term investment plan for the Acting Public Printer's endorsement. The committee places emphasis on adapting GPO to satisfy current and future congressional and other key customer needs and GPO sustainability, including improving efficiency and economy.

Fiscal Year 2013 Financial Projections

On July 1, 1953, Congress established the GPO Revolving Fund to finance GPO's operations on a self-sustaining basis. The Agency's overall long-term financial objective has been to earn revenues through a system of rates, prices, and surcharges used to bill customers for goods delivered and services performed that are sufficient to recover all Agency costs, including depreciation and overhead, in accordance with Section 309 of Title 44 U.S.C. The receipts and disbursements from the continuous cycle of business-type operations are recorded in the GPO Revolving Fund.

GPO's fiscal 2013 operating budget plans for the Agency to break-even, before the long-term Federal Employees' Compensation Act (FECA) adjustment from the U.S. Department of Labor, and after adjusting for income for capital investments related to passport production. These capital investments for the U.S. Department of State are mutually agreed to and allows GPO to invest in state-of-the-art passport manufacturing technology. The GPO operating budget also provides sufficient cash to allow continued capital investment to achieve more efficient operations and better meet customer needs. The budget for 2013 will require that the Agency continue with the strict cost containment program implemented in fiscal 2011.

The GPO's focus on satisfying customers, producing authentic and secure products vital to customers, and managing through change are essential to maintaining Agency operations on sound footing, both organizationally and financially. Achieving adequate financial results will help ensure that the GPO Revolving Fund remains financially self-sustaining as Congress intended and that GPO can continue *Keeping America Informed*, as it has for over 150 years.

SECTION II

INSPECTOR

GENERAL'S

REPORT

**Date**

February 28, 2013

To

Acting Public Printer

From

Inspector General

Subject

FY 2012 Independent Auditor's Report

Report Number 13-09

Attached is the Independent Auditor's Report on the U.S. Government Printing Office's (GPO) FY 2012 financial statements. We contracted with the independent certified public accounting firm of KPMG LLP (KPMG) to audit the financial statements of the GPO as of and for the years ended September 30, 2012 and 2011. The contract required that the audit be conducted in accordance with generally accepted government auditing standards (GAGAS).

KPMG's opinion on GPO's financial statements is unqualified. KPMG's consideration of internal control over financial reporting resulted in a material weakness. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. In addition, KPMG identified one significant deficiency in processing and maintenance of human resource and payroll information. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. KPMG made recommendations that GPO address each of these deficiencies.

The OIG further recommends that management develop a comprehensive corrective action plan (CAP) to address the material weakness identified during the audit. Appendix A, "Internal Control over Financial Reporting," of the Chief Financial Officer's Council's Implementation Guide for OMB Circular A-123, "Management's Responsibility for Internal Control" explains that a comprehensive CAP lists the detailed actions that agency personnel must perform to resolve a material weakness. The Guide also describes the basic elements of a comprehensive CAP as including:

- A summary description of the deficiency.
- The year the deficiency was first identified.
- The targeted corrective action date (the date of management follow-up).

- The agency official responsible for monitoring progress.
- The indicators, statistics, or metrics used to gauge resolution progress (in advance of audit follow-up) to validate the resolution of the deficiency.
- The quantifiable target or otherwise qualitative characteristic (e.g., milestone) that reports how resolution activities are progressing.

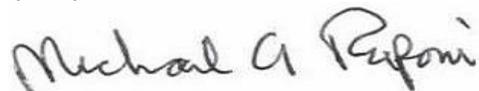
While GPO is not required to follow OMB Circular A-I23, the Circular is considered to contain policy related to internal controls that we consider a Federal Government best practice. CAPs are the mechanism whereby management presents the procedures the agency will follow to resolve deficiencies.

Recommendation

We recommend the Chief Financial Officer prepare a comprehensive CAP to address the material weakness identified in the consolidated financial statement audit. The CAP should include measurable indicators of compliance and resolution to assess and validate progress throughout the resolution cycle. GPO should closely monitor and update the CAP periodically.

KPMG is responsible for the attached auditor's report and the conclusions expressed in the report. However, in connection with the contract, we reviewed KPMG's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on GPO's financial statements; or conclusions about the effectiveness of internal control; or on GPO's compliance with laws and regulations. Our review disclosed no instances where KPMG did not comply, in all material respects, with GAGAS requirements.

We appreciate the courtesies extended to KPMG and to our audit staff. If you have any questions or comments about this report, please do not hesitate to contact me at (202) 512-0039.



MICHAEL A. RAPONI
Inspector General

Attachment

cc:

Assistant Public Printer, Operations
General Counsel
Chief Financial Officer

SECTION III

INDEPENDENT

AUDITORS'

REPORT



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

The Public Printer
United States Government Printing Office

Office of the Inspector General
United States Government Printing Office:

We have audited the accompanying consolidated balance sheets of the United States Government Printing Office (GPO) as of September 30, 2012 and 2011, and the related consolidated statements of revenues, expenses, and changes in retained earnings and cash flows (hereinafter referred to as "consolidated financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2012 audit, we also considered GPO's internal control over financial reporting and tested GPO's compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on these consolidated financial statements.

Summary

As stated in our opinion on the consolidated financial statements, we concluded that GPO's consolidated financial statements as of and for the years ended September 30, 2012 and 2011, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our consideration of internal control over financial reporting resulted in identifying certain deficiencies that we consider to be a material weakness and other deficiencies that we consider to be a significant deficiency, as defined in the Internal Control over Financial Reporting section of this report, in the following areas:

- Controls over Financial Reporting (Material Weakness)
- Processing and Maintenance of Human Resource and Payroll Information (Significant Deficiency)

The results of our tests of compliance with certain provisions of laws, regulations, and contracts disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States.

The following sections discuss our opinion on GPO's consolidated financial statements; our consideration of GPO's internal control over financial reporting; our tests of GPO's compliance with certain provisions of applicable laws, regulations, and contracts; and management's and our responsibilities.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of the United States Government Printing Office as of September 30, 2012 and 2011, and the related consolidated statements of revenues, expenses, and changes in retained earnings and cash flows for the years then ended.



In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the United States Government Printing Office as of September 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in the Management's Discussion and Analysis section is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Internal Control over Financial Reporting

Our consideration of internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, in our fiscal year 2012 audit, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in Exhibit I to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Exhibit II to be a significant deficiency.

Exhibit III presents the status of prior year significant deficiencies.

We noted certain additional matters that we will report to management of GPO in a separate letter.

Compliance and Other Matters

The results of our tests of compliance as described in the Responsibilities section of this report disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*.

* * * * *

Responsibilities

Management's Responsibilities. Management is responsible for the consolidated financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, and contracts applicable to GPO.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2012 and 2011 consolidated financial statements of GPO based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance



about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GPO's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2012 audit, we considered GPO's internal control over financial reporting by obtaining an understanding of GPO's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of GPO's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GPO's internal control over financial reporting.

As part of obtaining reasonable assurance about whether GPO's fiscal year 2012 consolidated financial statements are free of material misstatement, we performed tests of GPO's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to GPO. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

GPO's written responses to the findings identified in our audit and presented in Exhibits I and II were not subjected to the auditing procedures applied in the audit of GPO's consolidated financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of GPO's management, GPO's Office of Inspector General, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 25, 2013

Fiscal Year 2012 Material Weakness

Controls over Financial Reporting

During fiscal year 2012 (FY12), we noted several matters that highlighted the need for improved internal controls over financial reporting in all key process areas relating to the preparation, review and posting of journal entries and the review and approval of account reconciliations. We also noted that manager and supervisor reviews were not performed timely or at a precision level that would detect and correct a material misstatement. Collectively, these matters are considered to be a material weakness in internal controls over financial reporting. Specifically, we noted the following:

- One accounts payable year end entry for \$12.2 million was recorded incorrectly and was not identified during management's review, resulting in a \$24.4 million misstatement of accounts payable. In addition, the same entry for \$12.2 million was not supported by documentation but rather \$9 million was the correct amount that should have been recorded. Management subsequently recorded entries to correct the errors as of September 30, 2012 (12-NFR-13).
- The year-end salary payable reconciliation was not properly prepared or reviewed as of September 30, 2012. Specifically, we noted that the original reconciliation provided did not agree to the general ledger by \$5.9 million. After bringing this to management's attention, we subsequently received three more incorrect reconciliations before receiving one that agreed to the general ledger within an immaterial difference (12-NFR-12).
- We selected and tested a sample of 15 advance billing (deferred revenue) transactions and determined that 12 of the sample items tested, totaling \$862,319, were recorded incorrectly as advanced billings. Because of the results of our audit work, management performed an analysis of the unbilled accounts receivables and determined further adjustments were required. The adjustments related to transactions recorded in FY12 and in prior years. In summary, management identified overstatements of \$5.1 million related to 2012 transactions and \$1.4 million related to prior fiscal years. Management recorded all adjustments in the FY12 financial statements. The opening balance of advance billings was overstated by approximately \$1.4 million as a result of errors made in prior years. However, we determined that the consolidated financial statements were not materially misstated as of September 30, 2011 (12-NFR-16).
- We tested a sample of 35 unbilled accounts receivable transactions recorded in FY 12 totaling \$11,194,359 and determined that:
 - 4 transactions totaling \$374,061 were for projects completed in a prior year and no further billings were anticipated. Therefore, the billing variance should have been recorded in the prior fiscal year and not in FY 12, thus overstating revenue and accounts receivable in FY12.
 - For 1 transaction totaling \$30,298, an expenditure was recorded twice that resulted in the unbilled amount and thus overstated revenue and accounts receivable.

Fiscal Year 2012 Material Weakness

Because of the results of our audit work, management performed an analysis of the unbilled accounts receivables and determined further adjustments were required. The adjustments related to transactions recorded in FY12 and in prior years. In summary, management identified overstatements of \$2.7 million related to FY12 transactions and \$2.4 million related to prior fiscal years. Management recorded all adjustments in the FY12 financial statements. The opening balance of unbilled accounts receivable was overstated by approximately \$2.4 million as a result of errors made in prior years. However, we determined that the consolidated financial statements were not materially misstated as of September 30, 2011 (12-NFR-18).

- We selected and tested a sample of 35 accounts payable transactions and determined that the accrued amount for 7 items differed from the actual amount by more than \$200,000, resulting in inaccurate accruals as of September 30, 2012. We determined that the Office of Finance and Administration did not review the estimates or true them up once invoices were received prior to making payments. Because of the results of our audit work, management performed an analysis of the accrued expenses and determined further adjustments netting to \$2.3 million overstatement were required. Management identified an overstatement of \$5.8 million due to incorrect accrual estimates by the regional office personnel and an understatement of \$3.5 million because freight had been incorrectly excluded from the accrual estimate. Management recorded all adjustments in the FY12 financial statements (12-NFR-15).
- The Government Printing Office (GPO) did not record contingent liabilities in accordance with the Financial Accounting Standards Board Accounting Standards Codification (ASC) No. 450, *Loss Contingencies*. ASC 450 requires that an estimated loss from a loss contingency shall be accrued by a charge to income if the loss is both “probable” (the future event or events are likely to occur) and can be reasonably estimated. However, only a disclosure of the contingency shall be made if a loss does not meet the two conditions of “probable” but are at least “reasonably possible” (the chance of the future event or events occurring is more than remote but less than likely). GPO erroneously accrued items that were assessed as “reasonably possible,” which resulted in an over-accrual of \$210,000 at September 30, 2012 (12-NFR-14). GPO subsequently corrected this over accrual.
- During our inventory observation of management’s year-end inventory counts at GPO’s Central Warehouse, we noted that 4 of 25 selected items had been scrapped prior to the inventory count but no entry had been made to remove them from the general ledger. In addition, we identified two of five adjustments made by management were recorded incorrectly, and we determined that GPO had improperly classified passport test items held at an off-site location as inventory instead of a pre-paid expense. These errors resulted in an adjustment of \$919,214 recorded by management as of September 30, 2012 (12-NFR-08).

The Government Accountability Office’s (GAO) *Standards for Internal Control in the Federal Government* requires the following:

- Control activities are the policies, procedures, techniques, and mechanisms that enforce management’s directives, such as the process of adhering to requirements or budget

Fiscal Year 2012 Material Weakness

development and execution. They help ensure that actions are taken to address risks. Control activities are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results.

- Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. Control activities may be applied in a computerized information system environment or through manual processes.
- Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.

The conditions above were caused by deficiencies in internal controls over financial reporting regarding timely and appropriate management review to ensure all information processed was properly prepared, documented, and reviewed for accuracy and reasonableness. We also noted for these deficiencies that GPO staff did not always possess sufficient, appropriate understanding of the subsidiary ledgers or reports used in the reconciliations, including controls to ensure the completeness and accuracy of subsidiary ledgers.

Recommendations:

We recommend that GPO strengthen its controls over the timely and accurate preparation and review of reconciliations, journal entries, and other adjustments as follows:

1. Develop and implement policies and procedures to ensure that transactions recorded in accounts are appropriate throughout the year.
2. Provide training to personnel to increase their understanding of the subsidiary ledgers and reports used in the reconciliation process.
3. Require that reconciliation preparers ensure the completeness and accuracy of information prior to performing the reconciliations.
4. Perform reviews of reconciliations in a timely manner and at a monetary precision level that would detect and correct material errors.

Management Response:

Management concurs with these recommendations.

Fiscal Year 2012 Significant Deficiency

Processing and Maintenance of Human Resource and Payroll Information

We noted the following areas where the Government Printing Office (GPO) needs to improve its internal controls over processing and maintenance of human resource and payroll information:

- GPO uses Web Time & Attendance (WebTA), a web-based time and attendance program which employees use to enter and keep track of their hours worked and leave used. We selected a sample of 80 balances to test and identified 19 sample items where the annual leave balance recorded in WebTA did not agree to the annual leave balance reflected on the employee's Statement of Earnings and Leave (SE&L) prepared by the National Finance Center (NFC), GPO's payroll/personnel service provider. Management corrected the errors once brought to their attention.
- We selected a sample of 120 WebTA sheets to test and determined that 14 sample items were certified by a person not included on the list of approved supervisors. Additionally, no evidence was provided to verify that the individuals who certified the timesheets had been delegated that authority by an approved supervisor or that the supervisor had reviewed the timesheet in the following period for reasonableness.
- We selected a sample of 74 personnel files to test and identified 13 sample items with pay plan discrepancies. For 12 of these sample items, the GPO payment plan description reflected on the Standard Form (SF)-50, *Notification of Personnel Action*, did not agree to the GPO payment plan reflected on the SE&L prepared by the NFC. In addition, for 4 sample items (3 included the 12 sample items previously noted), the GPO payment plan description reflected on the SF-50 did not agree to the GPO payment plan description reflected on the SF-52, *Request/or Personnel Action*, maintained in the employee's personnel file. However, we noted that in each of these instances the employee's rate of pay reflected on the SF-50 and SF-52 were in agreement with the amount processed by NFC for the pay period tested.
- In our testwork over the GPO's Financial Accounting and Reporting Branch bi-weekly payroll accuracy review, we selected and tested a sample of 20 employees. We identified 2 instances where the review was not performed at the designed level of precision. Specifically, in 1 instance the control owner did not obtain supporting documentation for a step-increase, and in the other instance the control owner did not investigate a difference.
- We selected a sample of 74 employees and noted 1 instance where an employee was not paid the correct amount because certain hours worked were not properly coded on the timesheet.

The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* requires the following:

- Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives, such as the process of adhering to requirements or budget development and execution. They help ensure that actions are taken to address risks. Control activities are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results.

Fiscal Year 2012 Significant Deficiencies

- Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. Control activities may be applied in a computerized information system environment or through manual processes.
- Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.

The conditions above were caused by deficiencies in internal controls to ensure all information processed is properly reviewed for accuracy and reasonableness.

Recommendations:

We recommend that GPO strengthen its controls over the processing and maintenance of human resource and payroll information as follows:

1. Perform a review of all information uploaded to NFC to verify that the upload was successful and accurate.
2. Develop and implement policies and procedures for employees and supervisors to reconcile annual leave balances and timely inform payroll personnel of any corrections that need to be made to ensure accurate leave balances are maintained.
3. Improve communication with NFC to ensure that: a) the GPO payment plan information reflected on the SF-50s maintained in employee personnel files is accurate; and b) employee pay plans provided to NFC agree with employee actions and their personnel file.
4. Develop and implement policies and procedures over the maintenance of authorized and approved Web Time & Attendance certifiers. Policies and procedures should be established to prevent inappropriate delegations of certifying authority. In addition, all approved delegates should be properly trained and able to determine the reasonableness of hours and/or expenses they are certifying.
5. Strengthen internal controls over supervisors' and timekeepers' review and reconciliation of employee's time sheets at an appropriate level of precision to ensure that employees are recording their time correctly to get paid accurately based on their pay rate and job classification.
6. Ensure that policies and procedures are followed within their precision guidance to allow for controls to operate effectively and at the precision necessary to detect and/or correct errors.

Exhibit II (continued)

Fiscal Year 2012 Significant Deficiencies

Management Response:

Management concurs with these recommendations and has already worked to implement a corrective action plan.

Fiscal Year 2012 Significant Deficiencies

Prior Year Condition	Prior Year Recommendation	Status as of September 30, 2012
Significant Deficiencies		
A. Controls over Processing and Maintenance of Human Resources and Payroll Information		
	<p>We recommended that the U.S. Government Printing Office (GPO) strengthen its internal control over the processing and maintenance of human resource and payroll information as follows:</p> <ol style="list-style-type: none"> 1. Perform a review of all information uploaded to the National Finance Center (NFC) to verify that the upload was successful and accurate. 2. Develop and implement policies and procedures for payroll personnel to reconcile annual leave balances per WebTA to NFC to ensure that leave hours are properly accrued and that the annual leave balance is correct at the end of each pay period. 3. Improve communication with NFC to ensure that: a) the GPO payment plan information reflected on the SF-50s maintained in employee personnel files are accurate; and b) employee pay plans provided to NFC agree with employee actions and their personnel file. 4. Develop and implement policies and procedures over the maintenance of authorized and approved Web Time & Attendance certifiers. Policies and procedures should be established to prevent inappropriate delegations of certifying authority. In addition, all approved delegates should be properly trained and able to determine the reasonableness of hours and/or expenses which they are certifying. 	<p>Repeated in FY 2012, see Exhibit II.</p>

Exhibit III (continued)

Fiscal Year 2012 Significant Deficiencies

Prior Year Condition	Prior Year Recommendation	Status as of September 30, 2012
B. Information Technology General and Application Controls		
1. Security Management	<p>We recommended that GPO ensure that</p> <ul style="list-style-type: none"> a. GPO documents systems security plans and risk assessments in detail sufficient to plan system security controls for general support systems and major applications that are equivalent to the National Institute of Standards and Technology Special Publication 800-53 high-impact baseline controls. b. Security assessment testing used to support decisions to authorize systems for operation covers all planned system security controls at the point of initial authorization and at least once every three years thereafter, and includes descriptions of the test procedures performed and the results obtained. c. The General Business Information System (GBIS) application is re-authorized to operate. 	Closed
2. Access Controls	<p>We recommended that GPO management ensure that:</p> <ul style="list-style-type: none"> a. The sign out process for removing system access from separated personnel be evaluated, revised as necessary, and formally documented to help ensure that system access is removed at the time personnel leave GPO. b. Procedures for periodically reviewing and recertifying access to GPO systems are evaluated, revised as necessary, and formally documented to help ensure that access is reviewed on a periodic basis and that the review is documented. 	<p>Management Letter Comment</p> <p>This finding has been partially repeated in FY 2012 but is no longer considered a Significant Deficiency.</p>

Fiscal Year 2012 Significant Deficiencies

Prior Year Condition	Prior Year Recommendation	Status as of September 30, 2012
<p>3. Segregation of Duties</p>	<p>We recommended that GPO management revise procedures for maintaining segregation of duties within GBIS so that the procedures include sufficient detail to identify conflicting roles within GBIS.</p>	<p>Management Letter Comment</p> <p>This finding has been partially repeated in FY 2012 but is no longer considered a Significant Deficiency.</p>
<p>4. Configuration Management</p>	<p>We recommended that GPO management ensure that Information Technology and Systems should continue to centrally manage desktop and laptop patch management to help ensure that security patches are deployed to desktops and laptop computers in a timely manner.</p>	<p>Management Letter Comment</p> <p>This finding has been partially repeated in FY 2012 but is no longer considered a Significant Deficiency.</p>
<p>5. Contingency Planning</p>	<p>We recommended that management:</p> <ul style="list-style-type: none"> a. Finalize and approve the contingency plan for GPO General Support System. b. Periodically perform contingency plan testing and document the test plans and the results for GPO General Support System. 	<p>Management Letter Comment</p> <p>Management has drafted the required documents and they are waiting on approval.</p>

SECTION IV

FINANCIAL STATEMENTS

Section IV: Financial Statements

U.S. Government Printing Office
Consolidated Balance Sheets
 As of September 30, 2012 and 2011
 (Dollars in Thousands)

	2012	2011
ASSETS		
Current assets		
Fund balance with Treasury (Note 2)	\$ 480,607	\$ 386,854
Accounts receivable, net (Note 3)	141,176	172,271
Inventory, net (Note 4)	31,891	31,919
Prepaid expenses (Note 5)	1,156	99
Total current assets	654,830	591,143
General property, plant and equipment, net (Note 6)	100,473	103,261
Total assets	\$ 755,303	\$ 694,404
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable and accrued expenses (Note 7)	\$ 109,188	\$ 120,957
Deferred revenues (Note 8)	200,429	143,144
Accrued annual leave	9,417	10,843
Total current liabilities	319,034	274,944
Other liabilities		
Workers' compensation liability (Note 9)	70,524	68,144
Total liabilities	389,558	343,088
Commitments and contingencies (Notes 10 and 11)		
Net position (Note 12)		
Cumulative results of operations:		
Retained earnings	168,146	165,288
Invested capital	92,879	92,879
Unexpended appropriations	104,720	93,149
Total net position	365,745	351,316
Total liabilities and net position	\$ 755,303	\$ 694,404

Section IV: Financial Statements

The accompanying notes are an integral part of these financial statements.

U.S. Government Printing Office
**Consolidated Statements of Revenues, Expenses,
and Changes in Retained Earnings**
For the Fiscal Years Ended September 30, 2012 and 2011
(Dollars in Thousands)

	2012	2011
OPERATING REVENUES		
Printing and binding	\$ 584,328	\$ 681,510
Appropriations	114,512	122,089
Sales of publications	9,564	11,366
Agency distributions	5,427	6,144
Total operating revenues	713,831	821,109
OPERATING EXPENSES		
Printing and reproduction	314,225	362,108
Personnel compensation and benefits	206,952	236,960
Supplies and materials	103,632	126,887
Other services	33,375	39,223
Depreciation and amortization	21,463	21,520
Rents, communications, and utilities	15,546	16,274
Travel, transportation, and postage	8,838	10,098
Publications sold	4,562	5,142
Subtotal	708,593	818,212
Income before other expenses	5,238	2,897
OTHER EXPENSES		
(Increase)/decrease in workers' compensation liability	(2,380)	2,740
Net Income	2,858	5,637
Retained Earnings, beginning of year	165,288	159,651
Retained Earnings, end of year	\$ 168,146	\$ 165,288

The accompanying notes are an integral part of these financial statements.

Section IV: Financial Statements

U.S. Government Printing Office
Consolidated Statements of Cash Flows
 For the Fiscal Years Ended September 30, 2012 and 2011
 (Dollars in Thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 2,858	\$ 5,637
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,463	21,520
Gain on disposal of general property, plant and equipment	-	(21)
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	31,095	(594)
Inventory	28	651
Prepaid expenses	(1,057)	145
Increase (decrease) in liabilities:		
Accounts payable, accrued expenses, and other	(11,789)	6,251
Deferred revenues	57,285	15,858
Accrued annual leave	(1,426)	(310)
Workers' compensation liabilities	2,380	(2,740)
Total adjustments	97,979	40,760
Net cash provided by operating activities	100,837	46,397
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital purchases	(18,692)	(12,688)
Proceeds from sale of general property, plant and equipment	37	21
Net cash used in investing activities	(18,655)	(12,667)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in unexpended appropriations	11,571	12,959
Net cash provided by financing activities	11,571	12,959
Net increase in fund balance with Treasury	93,753	46,689
Fund balance with Treasury, beginning of year	386,854	340,165
Fund balance with Treasury, end of year	\$ 480,607	\$ 386,854

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

**U.S. Government Printing Office
Notes to the Financial Statements
September 30, 2012 and 2011**

1. Summary of Significant Accounting Policies

A. Reporting Entity

The U.S. Government Printing Office (GPO or Agency) is a Legislative Branch agency of the Federal Government. The Agency's mission and authority are derived from various statutes codified in Title 44, *Public Printing and Documents*, of the *United States Code* (U.S.C.). Congress established GPO to provide the Federal Government with an efficient and effective means for the production, procurement, and dissemination of Federal Government information to the Nation.

The Public Printer of the United States, appointed by the President of the United States with the advice and consent of the U.S. Senate, serves as the Agency head and oversees GPO's programs and operations. These programs and operations are funded through a business-type Revolving Fund, authorized by 44 U.S.C. § 309, and annual and special appropriations provided by Congress. The GPO Revolving Fund maintains a system of accounts and records transactions to comply with the requirements of Section 309 of Title 44 U.S.C.

The Joint Committee on Printing (JCP) has primary responsibility for congressional oversight of GPO's programs and operations. The JCP is composed of five members of the U.S. House of Representatives and five members of the U.S. Senate. Every two years the JCP chairmanship and vice-chairmanship rotate between the House and the Senate.

B. Accounting Environment

Basis of Accounting

As allowed by the Federal Accounting Standards Advisory Board (FASAB), the consolidated financial statements of GPO have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as promulgated by the Financial Accounting Standards Board (FASB). Under GAAP, revenues are recognized when earned, and expenses are recognized when incurred, without regard to the timing of the receipt or disbursement of cash.

Basis of Presentation and Consolidation

GPO prepares annual financial statements that reflect the overall financial position and results of operations to meet the requirements of GAAP and 31 U.S.C. § 3515(b) as mandated by 44 U.S.C. § 309(e). The accompanying consolidated financial statements include all funds under GPO's control that have been established and maintained to account for the resources of the Agency. All significant intra-agency balances and transactions have been eliminated in the preparation of the consolidated financial statements. GPO's consolidated financial statements do not include the effects of centrally administered assets and liabilities of the Federal Government, as a whole, such as interest on the public debt, which may in part be attributable to GPO. Other

Section IV (con't.): Notes to the Financial Statements

Federal agencies make financial decisions and report certain financial matters on behalf of the entire Federal Government, including matters in which individual agencies may be an indirect party. Financial matters maintained or reported by other Federal agencies in which GPO is indirectly involved include employee benefit plans and certain legal settlements.

Funds

GPO maintains a Revolving Fund and a general fund to account for its various programs and operations. Each of these funds is a distinct fiscal and accounting entity that accounts for cash and other financial resources together with all related liabilities and equities.

Revolving Fund – The GPO Revolving Fund is an inter-governmental fund established by Congress on July 1, 1953. This business-type Revolving Fund is available without fiscal limitation for financing the operation and maintenance of GPO, except for those information dissemination programs of the Agency that are funded by annual appropriations.

The GPO Revolving Fund is a self-sustaining financial entity used primarily to finance and account for GPO's Printing and Binding Operations and Publication and Information Sales Program. Accordingly, the two major sources of revenue to the Revolving Fund are reimbursements from the Congressional Printing and Binding Appropriations and other Federal customers for providing printing, binding and distribution services, including U.S. Passport production, and publication and subscription sales to the public.

The Printing and Binding Operations account for the revenues and expenses associated with services provided by in-plant printing and purchased printing. The costs of these services are recovered through a system of rates used to bill customers. These rates include direct costs, depreciation, overhead, and related expenses permitted under 44 U.S.C. § 309.

The Publication and Information Sales Program sells Federal Government information products to the public. The prices of Federal Government publications and subscriptions sold through this program are established in accordance with 44 U.S.C. § 1708.

General Fund – The General Fund is financed by two annual congressional appropriations to the Agency. These appropriated funds finance the cost of GPO's support of the Congress, and the Government information dissemination services provided to the public without charge to the recipients.

The Congressional Printing and Binding (CP&B) Appropriation is used to pay the cost of the printing and binding requirements of the Congress, and the printing, binding, and distribution of publications authorized by law to be distributed to others without charge to the recipient.

The Salaries and Expenses (S&E) Appropriation is used by the Library Services and Content Management, a GPO business unit, to fund four information dissemination programs: the Federal Depository Library Program (FDLP); the Cataloging and Indexing Program; the By-Law Distribution Program; and the International Exchange Program. The majority of this annual appropriation is used to finance the FDLP.

Section IV (con't.): Notes to the Financial Statements

Expenditures from these appropriations are used to reimburse the GPO Revolving Fund for printing and binding, and other services and supplies furnished by GPO in accordance with Title 44 U.S.C.

C. Fund Balance with Treasury

Fund balance with Treasury represents all balances in GPO accounts with the U.S. Department of the Treasury (Treasury). Treasury processes cash receipts and disbursements for GPO.

D. Accounts Receivable

Accounts receivable consist of intra-governmental amounts due to GPO, as well as amounts due from the public. Accounts receivable are shown net of a provision for uncollectible accounts. The allowance for doubtful accounts is based on GPO's recent debt collection experience.

E. Inventories

Inventories of paper, supplies and materials are shown net of a provision for obsolescence. Inventories of paper, supplies, and materials include the cost of production material (e.g., computer chips, ink, book cloth), as well as the cost of administrative-use supplies. These inventories are valued at the lower of cost, using the weighted moving average cost method, or market. The allowance for obsolescence is determined based on historical usage of paper, supplies, and materials.

Inventories of publications held for sale are valued at the lower of cost, using the weighted average cost method, or market. The publication inventories are shown net of a provision for excess inventory that may be disposed of by the Agency in the future. The allowance for surplus publications is based on life cycle studies of product sales that provide a historical basis for determining the percentage of potential excess inventory stock items on hand.

F. Property, Plant, and Equipment

Property, plant and equipment purchases are generally valued at their acquisition cost. GPO capitalizes the cost of the property as an asset when the cost is \$25,000 or more, and the estimated useful life is two years or more. The costs of major alterations and renovations to the GPO facility are capitalized and depreciated, while the costs of maintenance and repairs are expensed when incurred. The depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset. The depreciation of an asset commences the month after the asset is first placed in service.

The following table reflects the standard estimated useful life of each major depreciable asset category. Exceptions to these standard estimated asset lives are authorized when justified.

Section IV (con't.): Notes to the Financial Statements

Asset Category	Estimated Useful Life (Years)
Building Improvements	20
Building Appurtenances	20
Other Structures and Facilities	20
Furniture and Fixtures	20
Leasehold Improvements	10
Plant Machinery and Equipment	10
Office Machinery and Equipment	5
Motor Vehicles	5
Computer Software	3

Land has an indefinite life and is not subject to depreciation as well as construction in progress (CIP) and capitalized software in process (CSIP). Leasehold improvements are generally depreciated over 10 years or the remaining duration of the lease for real property, whichever is shorter.

Printing equipment transferred to GPO from other Federal agencies under the provisions of 44 U.S.C. § 312 is valued in accordance with JCP Regulation Number 26, *Government Printing and Binding Regulations*. This valuation approximates fair market value at the time of the property transfer.

G. Deferred Revenues

Deferred revenues are funds received in advance from customers for the future delivery of goods and services. GPO records these advances as revenue when the goods are delivered or the services are performed.

H. Accrued Annual Leave

Annual leave is accrued as a liability when earned. The liability is reduced when leave is used. The annual leave liability is calculated using the current hourly salary or wage of employees multiplied by their total hours of unused annual leave. Employees will receive a lump-sum payment for any unused annual leave when they separate from Federal service or enter active military service.

Sick leave and other types of non-vested leave are expensed when used. Employees are not entitled to a lump-sum payment for their unused sick leave.

I. Workers' Compensation Liability

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for

Section IV (con't.): Notes to the Financial Statements

GPO's employees under FECA are administered by U.S. Department of Labor (DOL) and are ultimately paid by GPO.

The FECA liability consists of two components. The first component, the accrued FECA liability, is based on actual claims paid by DOL but not reimbursed by GPO. GPO reimburses DOL for the amount of actual claims. As a result, GPO recognizes a current liability for actual claims paid by DOL. This liability is captured in Accounts Payable.

The second component, the actuarial FECA liability, is the estimated liability for future benefit payments. These future estimates were generated from an application of actuarial procedures developed to estimate the liability for future FECA benefits. The actuarial liability for future workers' compensation benefits includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These annual benefit payments have been discounted to present value using the Office of Management and Budget's (OMB) economic assumptions for 10-year Treasury notes and bonds, which resulted in discount rates as of September 30, 2012 and 2011, of 2.293 percent and 3.535 percent in year one and 3.138 percent and 4.025 percent thereafter, respectively.

J. Commitments and Contingencies

FASB Accounting Standards Codification, Asset Retirement Obligations (ASC 410-20), requires a reporting entity to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can reasonably be estimated. Accordingly, GPO has estimated and recorded the asset retirement obligation in accounts payable. Liabilities from loss contingencies, including environmental remediation costs not within the scope of ASC 410-20, arising from claims, assessments, litigation, fines and penalties, and other sources, are recorded in accounts payable when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. Loss contingencies that do not meet these criteria are not accrued.

K. Revenue Recognition

Printing and Binding – GPO must be reimbursed for the cost of printing and binding services furnished to customers at rates set by the Public Printer in accordance with 44 U.S.C. § 309. Revenues from in-house printing and binding work are recognized on a value-added basis, as work is performed, while revenues from commercially procured printing and binding are recognized on the date the contract requirements are fulfilled, which is generally the date of shipment by the commercial printer to the customer agency. Revenues related to the manufacture of passports by GPO for the Department of the State are recognized at annually negotiated rates per passport at the time that the printing and binding process is complete.

Appropriations – Appropriation revenues are recorded when a liability is incurred for purposes permitted by the appropriations act and program legislation. Unexpended appropriations are

Section IV (con't.): Notes to the Financial Statements

recorded as a component of net position. Unexpended appropriation balances are generally canceled after 5 years, unless authorized for transfer by appropriations committees.

Sales of Publications – Revenues from the sale of publications and subscriptions to customers are recognized when shipped by the Publication and Information Sales Program.

Agency Distributions – Revenues from the storage, packaging, and distribution of publications for other Federal agencies are recorded when services have been performed.

L. Expense Recognition

Printing and Reproduction – This expense includes the cost of printing, duplicating, and reproduction orders that are procured by GPO from the private sector to satisfy the needs of the Federal Government. The expense is generally recorded on the date of shipment by the contractor, and is shown net of vendor prompt payment discounts earned by the Agency.

Personnel Compensation and Benefits – Personnel compensation consists of the wages and salaries, including overtime premium and night differential, paid to GPO employees on a biweekly cycle. Personnel benefits include the Agency's share of contributions towards Federal Employees Health Benefits, Federal Employees' Group Life Insurance and two Federal Government civilian employee retirement programs. The two retirement programs are the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) that includes the related Thrift Savings Plan (TSP). Personnel benefits also include the current cost of workers' compensation expense, transit benefits provided by GPO to employees, and the cost of incentive and performance awards to employees. Personnel compensation and benefits are recorded as expenses when earned by employees.

Supplies and Materials – Computer chips required for passport production are the most significant cost component within the category of supplies and materials. Passport supplies and materials are recorded as an expense when used in production operations. The second most significant component is paper and paper products that are commercially procured to satisfy GPO's in-plant printing requirements and customer orders for blank paper. The expense is recorded when paper is drawn from inventory to fulfill an order or delivered to the customer, in the case of direct mill-to-customer shipments. This expense category also includes all other supplies and materials that are not capitalized as property, such as personal computers, furniture, and office supplies. The allowance for obsolete inventory is based on life cycle studies of product sales that provide a historical basis for the determination of potential excess inventory on hand.

Other Services – This expense category includes the costs of professional services by contractors and the expenses related to a provision for uncollectible accounts receivable. The expenses for professional services are recognized when the contracted services have been performed. The expenses for uncollectible accounts receivable are recognized when receivables are deemed as potentially uncollectible, based on GPO's collection experience.

Depreciation and Amortization – GPO uses the straight-line method of depreciation and amortization to allocate a portion of the acquisition cost of property, plant and equipment to each

Section IV (con't.): Notes to the Financial Statements

accounting period. The acquisition cost of each capitalized asset is depreciated, or amortized, over the asset's estimated useful life which is generally measured in years. The monthly depreciation, or amortization, of a capitalized asset commences at the beginning of the first full-month after the date that the capitalized asset was placed in service.

Rents, Communications, and Utilities – Rent and lease costs are incurred for the use of building space, equipment, and motor vehicles. GPO leases office and warehouse space from the U.S. General Services Administration and commercial landlords. GPO also rents automobiles and other motor vehicles. Communications costs include data, voice, video, and wireless services. Utilities include electricity, gas, steam, and water. Expenses are recorded as services are provided and energy resources are used.

Travel, Transportation, and Postage – This category includes travel and transportation costs of persons or things, including employee relocation costs, and postage expenses. Travel costs are incurred by persons on official business for audits, attendance at conferences, inspections, investigations, training, or other authorized business of the Agency. Transportation includes shipping costs for printing and reproduction products from GPO or contractors to customer agencies, depository libraries, or other GPO locations. Incurred travel expenses are accrued when they are estimable, while transportation costs are generally recorded on the date of shipment. Postage and commercial mail services are recorded as expenses when the delivery services are provided by the U.S. Postal Service and commercial carriers.

Publications Sold – Publications sold expense represents the cost of publications sold to customers and the cost of subscriptions issued to subscribers. Expenses are recorded at the time of publication sale or subscription issuance. Additionally, this expense includes any change in the estimated cost of the publications held in inventory for sale to the public that are potentially obsolete, damaged, or surplus. The allowance for surplus publications is based on life cycle studies of product sales that provide a historical basis for the determination of potential excess inventory on hand.

M. Consolidated Statements of Cash Flows

The consolidated statements of cash flows report the cash provided by and used in operating, investing, and financing activity categories. This statement identifies cash flows from GPO operations, and is used to identify financing acquired from outside sources, and to identify the major non-operating (investing) uses of funds.

N. Use of Estimates

The preparation of the consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent liabilities at the date of the consolidated financial statements, and the amount of revenues and expenses reported during the reporting period. Actual results could differ from these estimates.

The estimates that most significantly impact assets, liabilities, revenues, and expenses reflected

Section IV (con't.): Notes to the Financial Statements

in the accompanying consolidated financial statements are: the allowance for inventory obsolescence for supplies, materials, and publications held for sale; the allowance for doubtful accounts related to accounts receivable; the estimated useful lives of capitalized assets; the actuarial estimated liability for future workers' compensation benefits; and the estimate for contingent liabilities.

O. Fair Value Measurement

GPO applies FASB Accounting Standards Codification, *Fair Value Measurements and Disclosures* (ASC 820-10) for fair value measurements of financial assets and financial liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC 820-10 defines "fair value" as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. This standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted price quote in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). GPO's financial instruments are comprised of cash, accounts receivable, accounts payable, and accrued liabilities as of September 30, 2012 and 2011. The carrying amounts of these financial instruments approximate fair value because of the short-term nature of these instruments. GPO holds no financial instruments that are measured at fair value on a recurring basis.

The fair values in GPO's financial instruments represent GPO's best estimates of the amounts that would be received to sell those assets, or that would be paid to transfer those liabilities, in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. GPO developed those judgments based on the best information available in the circumstances.

P. Tax Status

GPO is a Legislative Branch agency within the Federal Government, and therefore, is not subject to Federal, state, or local income taxes. Accordingly, no provisions for income taxes are recorded by the Agency.

2. Fund Balance with Treasury

A table of items included in GPO's fund balance with Treasury, including funds on-hand or in-transit to the Treasury, as of September 30, 2012 and 2011 follows.

	(Dollars in thousands)	
	2012	2011
Fund Balances:		
Revolving fund:		
Unrestricted	\$ 152,133	\$ 115,967
Restricted:		
Customer deposit accounts	198,204	135,280
Other	23,067	38,874
Total revolving fund	373,404	290,121
General funds:		
Congressional printing and binding	58,801	57,258
Salaries and expenses	28,488	32,200
Supplemental and other	19,914	7,275
Total general funds	107,203	96,733
Total	\$ 480,607	\$ 386,854

Unrestricted funds are available to meet the financial obligations of the Revolving Fund. Restricted funds are composed of customer deposit accounts, other deferred revenues, and restrictions for accrued wages and salaries, payroll taxes and other withholdings, and earned annual leave not used by employees. These funds can only be used for the purpose specified.

The use of general funds for CP&B and S&E are restricted by appropriations language. Supplemental and other general funds include unexpended appropriations made to GPO and are for specific purposes as discussed in Net Position, Unexpended Appropriations (Note 12B).

The total fund balance with Treasury increased \$93.8 million (24.2 percent) to \$480.6 million in fiscal year 2012 from \$386.9 million in fiscal year 2011. The key drivers for the change were a decrease in accounts receivable; as well as, an increase in customer deposit collections, both current and future, through the Treasury Intra-Governmental Payment and Collection (IPAC) system.

3. Accounts Receivable, Net

Accounts receivable, net of an allowance for doubtful accounts, as of September 30, 2012 and 2011, consisted of the following.

Section IV (con't.): Notes to the Financial Statements

	(Dollars in thousands)	
	2012	2011
Federal agencies:		
Unbilled accounts receivable	\$ 100,925	\$ 122,697
Billed completed work	46,419	55,648
Subtotal	147,344	178,345
Other receivables:		
The public	513	1,701
GPO employees	1,284	1,346
Subtotal	1,797	3,047
Total accounts receivable	149,141	181,392
Less: Allowance for doubtful accounts	(7,965)	(9,121)
Total accounts receivable, net	\$ 141,176	\$ 172,271

The majority of accounts receivable are due from other Federal agencies that ordered goods and services from GPO. By law, these customers are required to reimburse the GPO Revolving Fund for the cost of their orders.

Unbilled accounts receivable results from the delivery of the goods and performance of services for which bills have not been presented to the customer for payment yet. Accordingly, unbilled accounts receivable includes the value of work in process and completed work for customer orders as of September 30, 2012 and 2011.

The majority of employee accounts receivable is owed by current and former employees who were advanced leave. Employees generally repay their leave indebtedness through biweekly installments from their earned leave or from leave donations from other employees under the GPO Leave Donation Program.

Net accounts receivable decreased by \$31.1 million (18.1 percent) in fiscal year 2012 from fiscal year 2011. This decrease was attributable to improved collections and IPAC chargebacks concurrently with an overall decline in revenues during the year.

4. Inventory, Net

Inventories, net of an allowance for surplus and obsolete stock, as of September 30, 2012 and 2011, consisted of the following.

Section IV (con't.): Notes to the Financial Statements

	(Dollars in thousands)	
	2012	2011
Supplies and materials	\$ 23,109	\$ 22,822
Publications for sale	6,177	6,723
Paper	5,035	4,488
Work in process	2,591	2,695
Total inventory	36,912	36,728
Less: Allowance for surplus and obsolete inventory	(5,021)	(4,809)
Inventory, net	\$ 31,891	\$ 31,919

5. Prepaid Expenses

Prepaid expenses were \$1.2 million as of September 30, 2012, and \$99,000 as of September 30, 2011. The increase of \$1.1 million in prepaid expenses in fiscal 2012 was primarily due to the prepayment of \$919,000 for passport chips that will be consumed in calibrating new passport manufacturing and printing equipment.

6. General Property, Plant, and Equipment, Net

Net property, plant, and equipment as of September 30, 2012 and 2011, consisted of the following.

	(Dollars in thousands)	
	2012	2011
Land	\$ 9,971	\$ 9,971
Buildings and improvements	84,452	83,425
Plant machinery and equipment	98,610	98,063
Computers and computer software	98,126	94,798
Furniture and fixtures	6,107	6,113
Motor vehicles	690	772
Leasehold improvements	10,115	10,115
Capitalized software in process	616	1,710
Capital improvements in process	9,960	623
Total	318,647	305,590
Less: Accumulated depreciation and amortization	(218,174)	(202,329)
General property, plant and equipment, net	\$ 100,473	\$ 103,261

General property, plant, and equipment decreased by \$2.8 million in fiscal 2012 from fiscal 2011 with capital additions of \$18.7 million, offset by annual depreciation of \$21.5 million. The majority of the capital additions were for construction-in-process (CIP) assets of \$9.3 million, with the primary in-process project being the fabrication of next generation passport production equipment for \$8.3 million.

Section IV (con't.): Notes to the Financial Statements

Additional GPO capital investments in fiscal year 2012 included \$6.6 million for IT infrastructure improvements. Concurrently there was approximately \$2.5 million in legacy software system asset retirements in fiscal year 2012.

Depreciation expense was \$21.5 million in both fiscal years 2012 and 2011.

7. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses as of September 30, 2012, and 2011, were composed of the following.

	(Dollars in thousands)	
	2012	2011
Accounts payable:		
Commercial printing	\$ 67,239	\$ 71,501
U.S. Government agencies	10,196	7,700
Other	20,339	21,675
Total accounts payable	97,774	100,876
Accrued salaries and payroll taxes	11,414	20,081
Total accounts payable and accrued expenses	\$ 109,188	\$ 120,957

The decrease in accounts payable and accrued expenses of \$11.8 million resulted in part from a decline in agency revenue that impacted Commercial Printing payables. Concurrently with the drop in orders, there was a reduced need for outside services and supplies furnished to the agency, including passport chips. This reduced Other payables.

In addition, the reduction in workforce through the 2011 Voluntary Separation Incentive Program (VSIP) drove down salaries and wages liability. In fiscal 2011, \$7.2 million was accrued for the employee buyout program. This liability was fully satisfied during fiscal year 2012. The lower headcount also reduced the employee payroll accrual at fiscal year-end.

8. Deferred Revenues

As of September 30, 2012 and 2011, deferred revenues from customers consisted of the following.

Section IV (con't.): Notes to the Financial Statements

	(Dollars in thousands)	
	2012	2011
Deposit accounts	\$ 198,204	\$ 135,280
Advance billings	595	5,836
Subscriptions	1,497	1,846
Unfilled orders	133	182
Total	\$ 200,429	\$ 143,144

GPO held \$198.2 million and \$135.3 million in customer deposit accounts as of September 30, 2012 and 2011, respectively. Of these amounts, Federal Government customers had advanced funds of \$195.8 million and \$132.6 million for printing and binding deposit accounts, and customers advanced \$2.4 million and \$2.7 million for publication and information sales program deposit accounts as of September 30, 2012 and 2011, respectively. Additionally, GPO held advanced funds from the Federal Government and other customers of \$1.5 million and \$1.8 million for subscriptions for the sales of publications as of September 30, 2012 and 2011, respectively. The restricted funds in these deposit accounts will generally be applied to future orders placed by customers or refunded on request.

GPO defers the recognition of revenues for subscription services that will be provided to customers in the future. Customers pay for ink-on-paper subscriptions to the *Congressional Record*, the *Federal Register*, and other publications in advance of delivery. The revenues from subscriptions are recognized as the periodicals are published and distributed to subscribers. The unfilled subscription balance will be refunded in instances where the subscription is no longer available for sale, or the customers cancel their subscription.

GPO also defers the recognition of revenues for unfilled customer orders of publications and other information products until the orders are shipped.

GPO defers the recognition of revenues for advance billings to Federal Government customers. Advance billings are occasionally used to finance the cost of producing certain large printing and binding jobs. GPO will recognize the revenue as work is completed.

9. Workers' Compensation Liability

Claims incurred and paid by DOL as of September 30, 2012 and 2011, but not yet reimbursed to DOL by GPO on the report dates, are approximately \$7.5 million and \$7.6 million, respectively. GPO's estimated non-current, actuarially derived future workers' compensation liability was approximately \$70.5 million and \$68.1 million as of September 30, 2012 and 2011, respectively. GPO's estimated, undiscounted, non-current, actuarially derived future workers' compensation liability was approximately \$102.8 million and \$109.1 million as of September 30, 2012 and 2011, respectively.

10. Commitments

10. A. Operating Leases

As of September 30, 2012, GPO was committed to various non-cancelable operating leases, primarily covering warehouse and office space. Some of these leases contain escalation clauses and renewal options. Annual lease and rental expenses for real and personal property were \$4.1 million in both fiscal 2012 and 2011.

A schedule of future minimum rental payments required under operating leases by type, which have initial or remaining non-cancelable lease terms in excess of one year, follows.

**Future Minimum Rental Payments
Required Under Operating Leases**

Fiscal Year	(Dollars in thousands)		
	Warehouse	Office	Total
2013	\$ 697	\$ 260	\$ 957
2014	159	176	335
2015	-	180	180
2016	-	78	78
2017	-	106	106
2018 and beyond	-	-	-
Total Minimum Lease Payments	\$856	\$800	\$1,656

10. B. Obligations

GPO had unliquidated obligations of \$241.1 million and \$221.9 million, at September 30, 2012 and 2011, respectively, of which \$125 million and \$134.4 million, respectively, are undelivered orders related to commercial printing. These obligations include purchase orders and contractual obligations by GPO to acquire goods and services from the private sector and other sources. Some of these orders are scheduled for delivery or performance in the next fiscal year.

11. Contingencies

11. A. Administrative Proceedings, Legal Actions, and Claims

GPO is a party in various administrative proceedings, legal actions, and claims brought against the Federal Government by employees, contractors, and other parties. The uncertainty involving the outcome of these pending matters will be resolved when future events occur or fail to occur. In some cases, legal matters relate to contractual arrangements GPO has entered into for goods and services procured on behalf of other Federal entities. The costs of administering, litigating, and resolving these actions are borne by the GPO Revolving Fund unless the costs are recovered from another Federal entity. As of September 30, 2012 and 2011, GPO has recorded estimated liabilities of \$291,000 and zero, respectively, related to claims that management believes the likelihood of an adverse result against GPO is probable. Such amounts are included in accounts

payable and accrued expenses in the financial statements.

Certain legal matters in which GPO is a named party may be administered and litigated on behalf of GPO by the U.S. Department of Justice. In these cases, amounts paid under any judgment, compromise settlement, or award are funded from the Judgment Fund administered by the U.S. Department of the Treasury (31 U.S.C. § 1304). The Judgment Fund paid a total of \$455,000 and \$140,000 on behalf of GPO for the years ended September 30, 2012 and 2011, respectively. These amounts are not reflected in GPO's consolidated financial statements.

11. B. Environmental Liabilities

GPO's Central Office in Washington, DC, is located in an industrial facility comprising of four older buildings that contain asbestos building materials. When they were constructed, asbestos was a common building material used as flame retardant, thermal system insulation, and in a variety of building materials (e.g., wall, floor, and ceiling tiles). GPO asbestos abatement efforts have been successful in the removal, enclosure, and encapsulation of friable asbestos to comply with applicable laws and regulations when unexposed asbestos is detected during building renovation projects.

The estimated costs to remove exposed asbestos within the GPO facility, mainly encapsulated pipe insulation, were \$454,000 as of September 30, 2012, and \$578,000 as of September 30, 2011. The reduced liability is the result of remediation of a portion of the area during recent renovations. These amounts are included in accounts payable and accrued expenses on the financial statements. The cost to remediate all non-visible asbestos has not been accrued in the financial statements due to the inability to reasonably estimate the extent of non-visible asbestos, the cost and manner of asbestos remediation, and the dates when the liability will be settled.

12. Net Position

12. A. Cumulative Results of Operations

Retained Earnings — Retained earnings include the net operating results of the GPO Revolving Fund, since inception, less certain required transfers to other Federal agencies.

Invested Capital — Invested capital represents the resources of the Federal Government that were directly appropriated to the Agency by Congress for investment in GPO assets (land, buildings, equipment, and capital).

Section IV (con't.): Notes to the Financial Statements

12. B. Unexpended Appropriations

The following table presents unexpended appropriation balances from September 30, 2010, through September 30, 2012, for appropriations made available to GPO.

Unexpended Appropriations

	Revolving	Salaries and	Congressional	
Appropriations (Dollars in thousands)	Fund	Expenses	Printing and Binding	Total
Unexpended balance at September 30, 2010	\$ 8,216	\$ 29,052	\$ 42,922	\$ 80,190
2011 fiscal year appropriation activity:				
Received	1,656	39,831	93,580	135,067
Transferred	2,640	(2,640)	-	-
Expended	(5,237)	(37,627)	(79,244)	(122,108)
Unexpended balance at September 30, 2011	7,275	28,616	57,258	93,149
2012 fiscal year appropriation activity:				
Received	500	35,000	90,700	126,200
Transferred	13,667	(3,732)	(9,935)	-
Expended	(1,528)	(32,900)	(80,200)	(114,628)
Unexpended balance at September 30, 2012	\$ 19,914	\$ 26,984	\$ 57,823	\$ 104,721

As of September 30, 2012, GPO had obligated all the \$57.8 million of the unexpended appropriations available for Congressional printing and binding, and all of the \$27 million of the unexpended appropriations available for Salaries and Expenses. The obligations are based on the estimated cost of open orders as of September 30, 2012. At September 30, 2011, the obligations were \$57.3 million in Congressional Printing and Binding Appropriations and \$28.6 million in Salaries and Expenses Appropriations.

The Revolving Fund unexpended appropriations balances at September 30, 2012 and 2011 were \$19.9 million and \$7.3 million, respectively. The Revolving Fund unexpended appropriations balances are the result of the following appropriation activities:

- In fiscal 2001, Congress authorized the transfer of \$3.3 million to the Revolving Fund from prior year Salaries and Expenses Appropriations to pay for the printing and distribution of publications to depository libraries. As of September 30, 2012, GPO expended \$2.4 million from this appropriation. At the end of fiscal 2012, the balance available for future expenditure was \$877,000, which was the same as at the end of fiscal 2011.
- In fiscal 2007, Congress appropriated \$1 million to the Revolving Fund for workforce retraining. As of September 30, 2012, GPO had expended \$826,000. At the end of fiscal 2012 and 2011, balances of \$237,000 and \$676,000 were available for future expenditure,

respectively.

- In fiscal 2009, Congress appropriated approximately \$5 million to the Revolving Fund for information technology development and facilities repair. GPO expended the entire \$5 million from this appropriation as of September 30, 2012. At the end of fiscal 2011, \$22,000 was available for future expenditure.
- In fiscal 2010, Congress appropriated \$12.8 million to the Revolving Fund for information technology development and facilities repair. As of September 30, 2012, GPO expended about \$11.7 million from the appropriation, of which \$491,000 was expended in fiscal 2012. At the end of fiscal 2012, a balance of \$1.1 million was available for expenditure. At the end of fiscal 2011, a balance of \$1.6 million was available for expenditure.
- In fiscal 2010, GPO transferred a total of \$2.2 million from prior year Salaries and Expenses Appropriations to the Revolving Fund. This transfer was authorized to cover appropriation shortfalls (about \$1.5 million of the \$2.2 million) and for FDLP improvements (about \$688,000 of the total). As of September 30, 2012 and 2011, a balance of \$1.5 million was available for future expenditure.
- In fiscal 2011, Congress appropriated \$1.7 million to the Revolving Fund for information technology development. As of September 30, 2011, GPO had expended the entire appropriation.
- In fiscal 2011, GPO transferred \$2.6 million from the Salaries and Expenses Appropriation to the Revolving Fund to cover salaries and expenses of the Superintendent of Documents. As of September 30, 2012, the balance of \$2.6 million was available for future expenditure.
- In fiscal 2012, GPO transferred a total of \$9.9 million unexpended prior year balances of Congressional Printing and Binding appropriations remaining from fiscal 2011 and fiscal 2010 and \$3.7 million from prior year Salaries and Expenses Appropriations to the Revolving Fund. These amounts are available to Congressional Printing and Binding to offset requirements for new budget authority for fiscal 2013, and liquidate obligations incurred in subsequent years.

13. Appropriated Funds

13. A. Total Appropriations Made Available

The total appropriations made available to GPO for fiscal 2012 and 2011 were as follows.

Section IV (con't.): Notes to the Financial Statements

	(Dollars in thousands)	
	2012	2011
Congressional printing and binding	\$ 90,700	\$ 93,580
Salaries and expenses	35,000	39,831
Revolving fund	500	1,656
Total available appropriations	\$ 126,200	\$ 135,067

13. B. Expended Appropriations

The total appropriations expended by GPO during fiscal 2012 and 2011 were as follows.

Section IV (con't.): Notes to the Financial Statements

Expended Appropriations		(Dollars in thousands)	
	2012	2011	
Congressional printing and binding:			
Hearings	\$ 14,920	\$ 23,115	
Congressional Record products	21,394	20,292	
Miscellaneous publications and printing and binding	22,427	18,128	
Bills, resolutions, and amendments	5,488	6,397	
Details to Congress	4,065	4,177	
Business and committee calendars	3,724	2,293	
Committee reports	2,137	2,045	
Other	3,580	1,354	
Public document envelopes	1,042	753	
Committee prints	1,423	690	
Total congressional printing and binding	80,200	79,244	
Salaries and expenses:			
Depository library distribution	23,317	26,373	
Cataloging and indexing	8,158	9,027	
International exchange	1,105	1,764	
By-law distribution	320	463	
Total salaries and expenses	32,900	37,627	
Revolving Fund:			
Infrastructure improvements	1,355	5,396	
Workforce retraining	174	(159)	
Total revolving fund	1,529	5,237	
Total expended appropriations	114,629	122,108	
Reconciliation of expended appropriations to the consolidated statements of revenues, expenses, and changes in retained earnings:			
Total expended appropriations	114,629	122,108	
Eliminations (Intra-agency)	(117)	(19)	
Consolidated revenues from appropriations	\$ 114,512	\$ 122,089	

14. Employee Benefit Plans

GPO funds a portion of pension contributions for its employees under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS), and makes payroll deductions from employees for their pension contributions. Office of Personnel Management (OPM) determines the employer contributions for these defined benefit plans that are required to be paid by GPO. OPM is responsible for Government-wide reporting of CSRS and FERS assets, accumulated plan benefits, and unfunded liabilities. In accordance with FASB, and consistent with multi-employer pension plans, GPO has reflected only the required contribution to these programs in its financial statements. OPM is responsible for funding any other costs. Therefore, GPO is not required to disclose the unfunded pension liability and post-

employment benefits relative to its employees.

Civil Service Retirement System

The CSRS is a defined benefit plan. Generally, it covers GPO employees first hired before 1984. Total GPO (employer) contributions to CSRS for employees covered under this retirement program were 7.5 percent of basic pay in both 2012 and 2011 for investigators and law-enforcement officers, and 7.0 percent of basic pay in both years for all other employees. GPO contributions were \$2.3 million and \$3.4 million for the years ended September 30, 2012 and 2011, respectively.

Federal Employees Retirement System

Using Social Security benefits as a base, FERS provides a defined benefit plan (Basic Benefit Plan) and a voluntary defined contribution plan. GPO employees first hired after December 31, 1983 were automatically covered by FERS and Social Security, while employees hired prior to January 1, 1984 were able to choose between joining this plan or remaining in CSRS.

The employer contribution rate to FERS for GPO law enforcement officers was 26.3 percent of basic pay in fiscal 2012 and 25.7 percent in fiscal 2011. The FERS contribution rate for all other employees was 11.9 percent in fiscal 2012 and 11.7 percent in fiscal 2011. GPO contributions to FERS totaled \$14.2 million for fiscal 2012 and \$14.1 million for fiscal 2011.

Thrift Savings Plan

The Thrift Savings Plan (TSP) allows employees to defer the recognition of income tax on contributions made to the plan. The TSP elective deferral limit for employees was \$17,000 and \$16,500 for 2012 and 2011, respectively. Employees, who were 50 years old or older, were allowed additional catch-up contributions of \$5,500 in 2012 and 2011. For FERS employees, the employer is required to contribute 1 percent of the employee's base pay to the TSP, and to match voluntary employee contributions dollar-for-dollar for the first 3 percent of pay, and 50 cents on the dollar for the next 2 percent of pay. Thus, the employer contribution to the TSP can be up to 5 percent for FERS employees. Employees participating in CSRS may contribute to the TSP, but they do not receive any matching contributions from the employer. GPO made employer contributions to the TSP of \$4.7 million in fiscal 2012 and \$4.9 million in fiscal 2011.

Social Security System

As an employer, GPO matches employee contributions to the U.S. Social Security Administration (SSA) under the Federal Insurance Contributions Act (FICA) for employees in the FERS. GPO contributes 6.2 percent of gross pay (up to \$110,100 in 2012 and \$106,800 in 2011) to SSA's Old Age, Survivors, and Disability Insurance (OASDI) Program. Additionally, GPO makes matching contributions for all employees of 1.45 percent of gross pay, without limit, to SSA's Medicare Hospital Insurance Program. Contributions to these SSA programs for the years ended September 30, 2012 and 2011 totaled \$9.9 million and \$10.5 million, respectively.

Employment, Pension, and Other Post-Employment Benefits Provided by Others

OPM is responsible for the management, administration, and funding of certain Government-wide programs that provide pension and other post-employment benefits to retired employees of the Federal Government. These OPM administered programs provide benefits to former employees of GPO. OPM administered pension programs include the CSRS and the FERS.

Section IV (con't.): Notes to the Financial Statements

Other OPM administered programs provide health, life, and long-term care insurance benefits to active, inactive, and retired employees. Permanent employees of GPO may participate in the Federal Employees Health Benefit Program, Federal Employee Group Life Insurance Program, and/or Federal Long Term Care Insurance Program before and after their retirement from the Agency.

15. Major Customers

GPO's primary customers are the Congress and large Federal agencies in the Executive Branch of the Federal Government. The following reflects GPO's Top 5 customers in fiscal 2012.

	(Dollars in thousands)			
	2012		2011	
	Billings	% of Total	Billings	% of Total
U.S. Department of State	172,124	23.9%	\$ 207,102	25.2%
U.S. Defense Logistics Agency	67,944	9.4%	78,282	10.0%
U.S. Dept. of Health & Human Services	47,521	6.6%	93,789	11.4%
U.S. Senate	46,380	6.4%	46,490	5.9%
U.S. Department of the Treasury	40,996	5.7%	53,298	6.8%

16. Voluntary Separation Incentive Program

Under the authority of Public Law 108-447 and with the approval of the Committee on House Administration and OPM, GPO conducted a Voluntary Separation Incentive Program (VSIP) in fiscal 2011. The purpose of the VSIP was to reduce the workforce due to changing business needs and requirements in the form of printing requests from Congress and Federal agencies. In fiscal 2011 GPO accrued an expense and liability of \$7.2 million in the Revolving Fund to finance the estimated VSIP payments. This accrual represented the estimate of payments to 287 GPO employees that applied to and were accepted for the VSIP. Estimated savings from the VSIP were \$34.7 million annually and \$26.0 million in fiscal 2012, since many employees chose to leave in December 2011.

In fiscal 2012, 50 GPO employees who had accepted the VSIP offer rescinded their retirement paperwork. The fiscal 2012 expense and liability were therefore reduced. The liability was fully satisfied and the balance was zero as of September 30, 2012. The projected annual savings of the VSIP was revised to approximately \$23.9 million, for 237 employees, and approximately \$18.0 million in fiscal 2012.

17. Subsequent Events

GPO has evaluated subsequent events through February 25, 2013, the date which the financial statements were available to be issued. There were no material events that required adjustment, accrual, or disclosure.

Section IV (con't.): Acronym List**ACRONYM LIST**

ASC	Accounting Standards Codification
CP&B	Congressional Printing and Binding
CSRS	Civil Service Retirement System
DOL	U.S. Department of Labor
EFT	Electronic Funds Transfer
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FDLP	Federal Depository Library Program
FDsys	GPO's Federal Digital System
FECA	Federal Employees' Compensation Act
FERS	Federal Employees Retirement System
FICA	Federal Insurance Contributions Act
LSCM	Library Services and Content Management
GAAP	U.S. Generally Accepted Accounting Principles
GAO	U.S. Government Accountability Office
GPO or Agency	U.S. Government Printing Office
HTML	Hyper Text Markup Language
IPAC	Intra-governmental Payment and Collection (System)
ISO	International Organization for Standardization
JCP	Joint Committee on Printing
OASDI	Old Age, Survivors, and Disability Insurance
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PDF	Portable Document Format
PII	Personal Identifiable Information
S&E	Salaries and Expenses
SID	Security and Intelligent Documents
SSA	U.S. Social Security Administration
Treasury	U.S. Department of the Treasury
TSP	Thrift Savings Plan
U.S.C.	United States Code
VSIP	GPO Voluntary Separation Incentive Program
XML	Extensible Markup Language